

EXHIBIT A

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

In re NEWS CORPORATION)	Consolidated
SHAREHOLDER DERIVATIVE)	C.A. No. 6285-VCN
LITIGATION)	

**VERIFIED SECOND AMENDED CONSOLIDATED SHAREHOLDER
DERIVATIVE AND CLASS ACTION COMPLAINT**

Co-Lead Plaintiffs The Amalgamated Bank, as Trustee for the LongView LargeCap 500 Index Fund, LongView LargeCap 500 Index VEBA Fund, LongView Quantitative LargeCap Fund, and LongView Quantitative LargeCap VEBA Fund (“Amalgamated Bank”) and Central Laborers Pension Fund (“Central Laborers”), and plaintiff New Orleans Employees’ Retirement System (“NOERS”) (“Plaintiffs”), by and through their undersigned counsel, assert this action derivatively on behalf of News Corporation (“News Corp” or the “Company”) and directly on behalf of themselves and all similarly situated public shareholders of News Corp against defendants Rupert Murdoch, James Murdoch, Lachlan Murdoch, Chase Carey, David F. DeVoe, Joel Klein, Arthur M. Siskind, Roderick Eddington, Andrew S.B. Knight, Thomas J. Perkins, Peter Barnes, José María Aznar, Natalie Bancroft, Kenneth E. Cowley, Viet Dinh, and John L. Thornton (the “Individual Defendants,” “Defendants” or the “Board”). Plaintiffs make the following allegations upon knowledge as to themselves and upon information and belief (including the investigation of counsel and review of publicly available information) as to all other matters, and allege as follows.

SUMMARY OF THE ACTION

1. This case arises because the Board News Corp has disregarded its fiduciary duties by allowing the Company’s founder, CEO, Chairman and controlling

shareholder, Rupert Murdoch, to use News Corp as his own personal fiefdom. The Board has not lifted a finger to engage in any oversight of Murdoch's rule, even when it was provided with clear and unmistakable warnings that News Corp's business practices were not only unethical, but also illegal. Worse yet, the Board in bad faith allowed itself to become an outright accomplice to Murdoch's self-interested breaches of duty, repeatedly approving transactions whose core purpose was to entrench Murdoch and consolidate his control, and to siphon value away from News Corp and its shareholders for the benefit of Murdoch, his family, and his friends.

2. The Board's utter failure to curb Murdoch's use of the Company's money to pursue his own agenda reflects that Murdoch completely controls the majority of the Board, including the Audit Committee. The Directors – all Murdoch family members, long-time friends, News Corp executives, or people with extensive business relationships with Murdoch and his media empire – consistently place Murdoch's interests ahead of those of News Corp and its public shareholders. Due to the Board's unwillingness or inability to stand up to Murdoch, News Corp's businesses and reputation, along with its shareholders, have suffered severe harm. This case seeks to hold the Board accountable for that harm, and to ensure that in the future, value is created for the public shareholders, rather than only for Murdoch and his loyalists.

3. For years, highly improper (and at times illegal) conduct has been carried out throughout News Corp subsidiaries around the world without any Board oversight or restraint. By the late 1990s, the Board first received evidence that News Corp subsidiaries were systemically engaging in illegal violations of third party privacy, when

two subsidiaries, News America Marketing (“NAM”) and NDS Group plc (“NDS”), were accused by multiple parties of stealing computer technology, hacking into business plans and computers and violating the law through a wide range of anti-competitive behavior. NAM attempted to drive its competition out of business, by among other things, illegally hacking a competitor’s password-protected website on eleven separate occasions over a several month period. The Board did not remain oblivious to this misconduct, which required NAM to pay out more than \$650 million in settlements to three competitors. Another subsidiary, NDS, was accused of illegally extracting software code from competitors’ smart cards and posting the information on the Internet. This allowed hackers to create counterfeit cards that could be used to illegally intercept satellite television protected by competitors’ smart cards. Several News Corp Board members sat on the Board of NDS and NAM, so their knowledge of this malfeasance is clear.

4. As if these incidents were not enough to require the News Corp Board to be more vigilant about the Company’s business practices, as has recently been revealed, over the last decade reporters at News of the World – a United Kingdom (“U.K.”) newspaper run by News International, News Corp’s 100%-wholly-owned British newspaper division – engaged in the unlawful interception of voicemail and cell phone traffic from literally thousands of people in the UK. The victims of these intercepts included members of the royal family, actors, politicians, and ordinary citizens who were the victims (or relatives of victims) of high profile crimes and/or terrorist attacks. In addition, investigators working for News International have engaged in a variety of other illegal conduct in the pursuit of their tabloid stories, including hacking email, bribing

police officers for confidential information, and “blagging” (*i.e.*, impersonating their targets to obtain private information (e.g., financial or health records) from third parties). The misconduct was so outrageous that on July 7, 2011, News Corp announced that it was shuttering the 168-year-old News of the World.

5. The Board was on notice of the improper conduct at the News of the World at least as early as 2002, based upon news reports about hacking, yet it refused to investigate the issues. The Board had a further opportunity to educate itself and stem the illegal behavior in 2007, when there were criminal convictions of New of the World employees and agents directly related to phone hacking. Again it did nothing. In 2008, as a result of certain hacking-related civil suits, the Board was on direct notice of the misconduct and had yet another opportunity to assert its proper function. It still took no action.

6. For his part, rather than take action *against* the senior officers at News Corp’s subsidiaries who allowed the illegal practices to flourish, Murdoch, *promoted* and/or protected them. Executives involved in the illegal activities included Rebekah Brooks (“Brooks”), a very close friend of Murdoch, and Andy Coulson (“Coulson”), a Murdoch political ally and a close friend of Brooks. James Murdoch – Murdoch’s son and a News Corp Board member – was involved, at a minimum, in News Corp’s attempt to cover up its actions.

7. While certainly the most visible misdeed of the past several months, the still unfolding phone-hacking scandal is just a continuation of the Board’s malfeasance. For years, the Board also has condoned Murdoch’s habitual use of News Corp to pursue

his quest for power, control, and political gain and to enrich himself and his family members, at the Company's and its public shareholders' expense. For example, a few years ago the Board endorsed plans to repurchase shares from Murdoch competitor John Malone, which protected Murdoch but gave up what could have been a multi-billion dollar profit on News Corp's investment in DirecTV. News Corp spent billions on Murdoch's vanity purchase of Dow Jones, only to write off billions less than two years later. Other examples of the Board doing what Murdoch wants, without regard for what the shareholders need, abound.

8. The Board has also repeatedly allowed Murdoch to place his children and other family members in positions of power, and has caused News Corp to use its money to advance the selfish business interests of his family. Recently, Murdoch continued a long history of abuses by causing News Corp to buy 100% of Shine Group Ltd., the television and film production company that was run and majority-owned by his daughter Elisabeth Murdoch. The \$615 million transaction was rubber-stamped by News Corp's Board at Murdoch's urging. As a result of the transaction, Elisabeth Murdoch is now approximately \$250 million richer and, more importantly, from her father's perspective, back within the News Corp executive suite.

9. Murdoch publicly proclaimed that his purpose in causing News Corp to enter into the transaction was to bring Elisabeth back to the family business and to put her on News Corp's already conflicted and dominated Board. It was only by virtue of Plaintiffs' litigation that the Board finally recognized that it would not be "appropriate" to appoint Elisabeth Murdoch to the Board at this time.

10. The Board's failure to take any action to prevent the illegal conduct systemic within the Company and its rubberstamp- like acquiescence to all of Murdoch's desires is indicative of the fact that Murdoch completely controls the majority of the Board. In fact, even the Board's purported recent investigation into the hacking scandal demonstrates its complete domination by Murdoch since the two directors involved in the "investigation" are a close personal advisor and employee of Murdoch, and a Murdoch family friend. The committee process is also clearly a whitewash, considering that as early as July 17, 2011, Board member Thomas Perkins already told the world that the Board as a whole had already prejudged the issue, stating that "the board supports top management" and that "[t]here's no reason to believe top management was lying. That's my very strong belief."

11. The Board's prolonged and complete failure of oversight and acquiescence to Murdoch's wishes unquestionably has caused the Company significant financial and reputational harm. Indeed, News Corp suffers from the "Murdoch discount," which is a multi-billion dollar overhang on the Company's value. The total cost of the pattern of misconduct is yet untold, but is at least tens of billions of dollars.

12. Through this Action, Plaintiffs seek to obtain redress for News Corp's public shareholders for the harm caused by the Board failure of oversight and to put News Corp on a path towards becoming a law-compliant corporation that puts its public shareholders' interests ahead of the whims of Murdoch and his cronies.

JURISDICTION

13. This Court has jurisdiction over this action pursuant to 10 Del. C. § 341.

14. As directors of a Delaware corporation, the Individual Defendants have consented to the jurisdiction of this Court pursuant to 10 Del. C. § 3114.

15. This Court has jurisdiction over News Corp pursuant to 10 Del. C. § 3111.

THE PARTIES

16. Co-Lead Plaintiff Amalgamated Bank (“Amalgamated”) is a New York state chartered bank that manages approximately \$12 billion for institutional investors, including Taft-Hartley plans and public employee pension funds. Amalgamated has locations in New York, New Jersey, California, Nevada, and Washington D.C., with its main office located in Manhattan. Amalgamated brings this action as Trustee for the LongView LargeCap 500 Index Fund, LongView LargeCap 500 Index VEBA Fund, LongView Quantitative LargeCap Fund, and LongView Quantitative LargeCap VEBA Fund (the “Funds”). Amalgamated, through the Funds, holds nearly 1 million shares of News Corp common stock.

17. Co-Lead Plaintiff Central Laborers Pension Fund is an Illinois-based Taft-Hartley pension fund that owns shares of News Corp and has been a shareholder at all times relevant to the claims asserted herein.

18. Plaintiff the City of New Orleans Employees’ Retirement System (“NOERS”) is a retirement fund for the benefit of City of New Orleans public employees. NOERS is a shareholder of News Corp and has been a shareholder at all times relevant to the claims asserted herein.

19. Nominal Defendant News Corp is a Delaware corporation with its principal executive offices located at 1211 Avenue of the Americas, New York, New

York. News Corp is the world's biggest and most influential media company. It has operations in the following eight segments: (i) filmed entertainment, (ii) television, (iii) cable network programming, (iv) direct broadcast satellite, (v) integrated marketing services, (vi) newspapers and information services, (vii) book publishing, and (viii) other. Its properties include the Fox networks, the Wall Street Journal, British Sky Broadcasting Group ("BSkyB") and the New York Post. It also owns 49% of NDS. Both BSkyB and NDS have managers and board members who are related to Murdoch and/or are senior executives/Board members at News Corp. The Company is publicly traded on the NASDAQ under the ticker symbol "NWSA."

20. Defendant K. Rupert Murdoch ("Murdoch") has been Chief Executive Officer of the Company since 1979 and its Chairman since 1991. Although it owns only 12% of the overall equity of the Company, the Murdoch family, through the Murdoch Family Trust, beneficially owns almost 40% of News Corp's voting Class B common stock, and thus has effective control over corporate matters

21. Defendant James R. Murdoch ("James Murdoch") has been a Director of the Company and the Chairman and Chief Executive, Europe and Asia, since 2007. He has also been the Executive Chairman of News International since 2007. As of March 30, 2011, James Murdoch became Deputy Chief Operating Officer, as well as Chairman and Chief Executive Officer, International. In addition, he previously served as an Executive Vice President of the Company, and served as a member of the Board from 2000 to 2003. James Murdoch was the Chief Executive Officer of BSkyB from 2003 to 2007. He has served as a Director of BSkyB since 2003.

22. Defendant Lachlan K. Murdoch (“Lachlan Murdoch”) has been a Director of the Company since 1996. He served as an advisor to the Company from 2005 to 2007, and served as its Deputy Chief Operating Officer from 2000 to 2005. Lachlan Murdoch served as a director of NDS from 2002 to 2005.

23. Defendant Chase Carey (“Carey”) has been the President, Chief Operating Officer and Deputy Chairman of the Board since July 2009. Carey previously served the Company and its affiliates in numerous roles beginning in 1988, including as Co-Chief Operating Officer from 1996 to 2002, as a consultant from 2002 to 2003 and as a Director from 1996 to 2007. Carey has served as the Chairman of the Supervisory Board of Sky Deutschland AG, a German pay-television operator and affiliate of the Company, since July 2010. Carey served as a President and Chief Executive Officer of DirecTV from 2003 to 2009 and as a director of DirecTV from 2003 to June 2010. Carey also served as a director of BSkyB from 2003 to 2008.

24. Defendant David F. DeVoe (“DeVoe”) has been a Director of the Company and its Chief Financial Officer since 1990. DeVoe has served as Senior Executive Vice President of the Company since 1996. DeVoe has been a director of BSkyB since 1994 and a Director of NDS since 1996. He served as a director of DirecTV from 2003 to 2008.

25. Defendant Joel Klein (“Klein”) joined the Board in January 2011 and currently serves as Executive Vice President, Office of the Chairman. Klein is also the Chief Executive Officer of News Corp’s education division.

26. Defendant Arthur M. Siskind (“Siskind”) has been a Director of the Company since 1991 and the Senior Advisor to Murdoch since 2005. Siskind served as the Company’s Group General Counsel from 1991 to 2005, as Senior Executive Vice President from 1996 to 2005, and as Executive Vice President from 1991 to 1996. Siskind has served as a director of BSkyB since 1991 and as a director of NDS from 1996 to 2009.

27. Defendant Sir Roderick I. Eddington (“Eddington”) has been a Director of the Company since 1999, and serves as the Chairman of the Audit Committee and as a member of the Compensation Committee. Previously, Eddington served as a Director of News Limited, News Corp’s principal subsidiary in Australia, from 1998 until 2000, and as Chairman of Ansett Holdings Limited and as a director of each of Ansett Australia Limited and Ansett Australia Holdings Limited from 1997 until 2000. Until then, News Corp owned 50% of Ansett Australia.

28. Defendant Andrew S.B. Knight (“Knight”) has been a Director of the Company since 1991, and serves as a member of the Audit Committee that approved the Shine Transaction. Knight was the Chairman of News International, a subsidiary of the Company, from 1990 to 1995.

29. Defendant Thomas J. Perkins (“Perkins”) has been a Director of the Company since 1996 and serves as a member of the Audit Committee that approved the Shine Transaction.

30. Defendant Peter L. Barnes (“Barnes”) has been a Director of the Company since 2004 and is a member of the Audit Committee that approved the Shine Transaction.

31. Defendant José María Aznar (“Aznar”) has been a Director of the Company since 2006. Aznar served as the President of Spain from the 1996 to 2004.

32. Defendant Natalie Bancroft (“Bancroft”) has been a Director of the Company since 2007. In connection with the Company’s acquisition of Dow Jones, Bancroft was appointed by Murdoch as a Director pursuant to the terms of an agreement whereby the Company agreed to elect a member of the Bancroft family or another mutually agreed upon individual to the Board.

33. Defendant Kenneth E. Cowley (“Cowley”) has been a Director of the Company since 1979. Cowley served as a senior executive of News Limited, a subsidiary of the Company, from 1964 to 1997, including as its Chairman and Chief Executive from 1980 to 1997.

34. Defendant Viet Dinh (“Dinh”) has been a Director of the Company since 2004, and has been a close friend of the Murdoch family for many years

35. Defendant John L. Thornton (“Thornton”) has been a Director of the Company since 2004.

SUBSTANTIVE ALLEGATIONS

A. THE BOARD DOES NOTHING AS COMPUTER HACKING AND OTHER ILLEGAL CONDUCT BY MURDOCH PROTÉGÉS COST NEWS CORP OVER \$650 MILLION

1. Hacking and Illegal Conduct at NAM

36. For more than a decade, News Corp subsidiaries have engaged in highly improper practices that have subjected News Corp to great financial and reputational damage. This misconduct was so pervasive that the News Corp Board must have either

been aware of the wrongdoing or was deliberately indifferent to the corporate culture that encouraged this type of behavior. For example, a series of lawsuits against two News Corp subsidiaries evidence a pattern of improper behavior that was, at best, consciously disregarded by the News Corp Board.

37. NAM is a News Corp subsidiary engaged in the business of providing marketing services for consumer product manufacturers. Defendants Murdoch, DeVoe, and Siskind each served as directors of NAM during the time that the misconduct described below occurred.

38. In five lawsuits, three competitors alleged that NAM engaged in a variety of improper and often illegal anticompetitive conduct in an attempt to drive competitors out of business. The resulting settlements have cost News Corp more than \$600 million, and in the wake of the recent attention given to the phone-hacking scandal, the allegations are receiving renewed attention from law enforcement and regulatory investigators.

39. In 2004, FLOORgraphics (“FGI”), a competitor of NAM, filed a lawsuit alleging that NAM systematically tried to destroy FGI’s business. Several days into the 2009 trial, NAM agreed to pay FGI more than \$29 million to purchase FGI – a company with annual revenues of approximately \$1 million – outright, thus mooting the suit.

40. At trial, a founder of FGI testified that in July 1999, Paul Carlucci, NAM’s CEO, told FGI: “[I]f you ever get into any of our businesses, I will destroy you...I work for a man who wants it all, and doesn’t understand anybody telling him he can’t have it all.” Carlucci was referring to Murdoch, to whom Carlucci reported. In 2005, Murdoch

appointed Carlucci head of the New York Post, after Murdoch's son Lachlan resigned from the position. Carlucci and Murdoch talk regularly, so it is inconceivable that Murdoch would not have been aware about the illegal tactics being employed by NAM to thwart competition. At the very least, Murdoch and other News Corp Board members knew about FGI's allegations, but failed to conduct any investigation of them.

41. Robert Emmel, a former NAM account director, testified about how NAM implemented Carlucci's threat and succeeded in driving FGI's business to ruin by, among other things: (1) putting out false press releases to prevent FGI from getting needed financing; (2) misrepresenting FGI's compliance rate (the ratio of advertisements paid for by customers to advertisements actually placed); (3) falsely telling customers that FGI was having difficulty making payments to retailers; and (4) mutilating and removing FGI signs from retailers.

42. After he became increasingly disenchanted with NAM in 2005, Emmel began to disclose confidential information to a series of governmental entities while still working for NAM, including the office of Senator Paul Sarbanes; the SEC; the New York Attorney General's Office; the office of Senator Charles Grassley; and the U.S. Senate's Finance and Judiciary Committees

43. Among the most shocking allegations (and those receiving significant renewed attention in light of the U.K. scandal), FGI learned in early 2004, that "on at least 11 occasions between October 2003 and January 2004, NAM . . . breached FGI's secure computer system." FGI had evidence that someone working at NAM hacked into a password-protected website containing confidential information intended only for FGI

and its customers. According to trial testimony, the password-protected site contained FGI's proprietary advertisement inventory. In addition to past advertisements, there were advertisements contemplated for future use as well. A subsequent investigation by FGI uncovered evidence that someone at NAM had illegally accessed the site. FGI sent a letter to David DeVoe, Jr., CFO of News Corp, but FGI did not get a response.

44. FGI also reported the incident to the FBI, prompting investigations by the FBI, the Secret Service, and the New Jersey Division of Criminal Justice. Recently, New Jersey Senator Frank Lautenberg requested the Attorney General and the Director of the FBI to look into these allegations anew as part of the FBI's investigation into allegations of phone-hacking of September 11 victims by News Corp employees.

45. In 2006, Valassis Communications, another NAM competitor, filed a lawsuit in federal court in Michigan against NAM alleging conduct substantially similar to that alleged by FGI. Valassis alleged that NAM, which is involved in a number of related marketing businesses, threatened its customers that if they contracted with Valassis for particular types of advertisement, NAM would impose severe economic penalties with respect to the other marketing services that NAM provides by significantly raising the price of its other services. According to Valassis' complaint, this economic penalty was often more than \$1 million, and in some cases, as high as \$5 million.

46. NAM's conduct was no aberration, but rather came at Murdoch's directions. At the trial, Carlucci testified that he told NAM employees: "...***Last night Mr. Murdoch was saying now you have to really go after [Valassis].***" [Emphasis added.] Debra Lucidi, a former director of business development for Sara Lee, also testified that

NAM “threatened to charge a higher in-store price, if the company gave its FSI [free-standing insert, *i.e.* couponing] business to Valassis.”

47. Following a trial in a case brought in Michigan state court, a jury awarded Valassis \$300 million in damages. Thereafter, ***NAM settled with Valassis for \$500 million*** and agreed to a ten-year business arrangement with Valassis.

48. Similarly, Insignia Systems filed a lawsuit against NAM alleging the same type of behavior. Insignia alleged that due to NAM’s campaign of improper and illegal tactics against it, Insignia’s stock price was driven down from \$11 in 2002 to less than 30 cents in 2005. NAM used the same types of tactics against Insignia that it had used in its attempts to drive FGI and Valassis out of business, including falsely telling customers that Insignia was unable to perform its contracts; removing Insignia’s advertisements from retailers; and offering uneconomically large payments to retailers to exclude competitors.

49. Shortly after opening statements were delivered, ***NAM, rather than face another jury, agreed to pay Insignia \$125 million to settle the case.***

2. Hacking and Illegal Conduct at NDS

50. In 2002 and 2003, respectively, Vivendi and EchoStar filed lawsuits against NDS, a News Corp subsidiary that manufactured smart cards. These smart cards are inserted into boxes given to customers of satellite television providers and contain software code that allows for the unscrambling of satellite television signals. Protecting the code within the smart card is of paramount importance to satellite television

providers; otherwise, individuals can embed the code on their own smart card and unscramble satellite television signals without paying the provider.

51. In March 2002, three subsidiaries of Vivendi (hereinafter collectively referred to as “Vivendi”), a French media conglomerate, initiated a lawsuit in the Northern District of California against NDS, alleging that NDS hacked its smart card and provided counterfeiters the opportunity to create cards for the decoding of secure broadcast signals. In 1998, NDS had sent Vivendi’s smart cards to a laboratory in Israel for the purpose of cracking the code on the smart cards. When the access-controlling software was extracted from the smart card, it was sent to NDS’s U.S. offices with instructions that it be published on the Internet. Not only were the smart cards used with Vivendi customers, but Vivendi also sold the smart cards to other providers for use in their customers’ equipment. Vivendi alleged that NDS’s actions of illegally extracting the code to its smart cards and posting it on the Internet caused it more than \$1 billion in damages. News Corp was once again forced to buy its way out of legal trouble, and the case was dismissed as part of a deal in which News Corp purchased Telepiu, a money-losing Italian pay-TV platform, from Vivendi for €920 million (approximately \$907 million).

52. In June 2003, EchoStar, three of its subsidiaries, and a joint venture in which EchoStar held a 50% stake (hereinafter collectively referred to as “EchoStar”) initiated a lawsuit against NDS in U.S. District Court for the Central District of California. EchoStar owned the DISH Network, a satellite-based television broadcast. EchoStar purchased smart cards from its joint venture, NagraStar, for use in the DISH

Network boxes provided to customers. In order to control the problem of counterfeit smart cards, EchoStar alleged that “NDS made a conscious decision to hire and ‘control’ all of the most well-known, or ‘best’ satellite pirates and hackers. Using these hackers, NDS could then control the piracy of its technology.”

53. The jury found that NDS had engaged in illegal conduct by using one of the counterfeit smart cards that it had created from code extracted from a NagraStar smart card to illegally intercept an EchoStar satellite television broadcast as part of its testing process. Following up on this verdict, the court granted an injunction in favor of EchoStar preventing NDS from, among other things, “[i]ntercepting or receiving, anywhere in the United States, or assisting anyone in the United States in intercepting or receiving, EchoStar’s satellite television signal without authorization.”

3. The Board Did Nothing Despite The Harm to News Corp Resulting From NAM and NDS Misconduct

54. The EchoStar and other similar lawsuits were chronicled in News Corp’s annual reports, which were signed by numerous members of the current Board. The Board was therefore well aware of the substantive allegations of these suits and the massive amounts of Company cash that were required to discharge or settle them.

55. In addition, at the time that this misconduct was occurring and coming to light at NDS and NAM, a number of members of the Board, including Defendants Siskind, DeVoe, Carey, and James Murdoch, were also directors of the miscreant subsidiaries. Rupert Murdoch, DeVoe, and Siskind were directors of both NAM and News Corp around the time that anticompetitive practices that cost the Company hundreds of millions of dollars were rampant. The fact that so many directors common to

the Company and these subsidiaries sat idly by and watched as these subsidiaries engaged in pervasive misconduct that ultimately caused the Company significant financial and reputational harm, underscores the directors' deliberate indifference to the misconduct occurring at these subsidiaries.

56. In all events, the pattern of News Corp subsidiaries stealing private and competitively valuable information was by this point clear to the Board.

B. THE BOARD'S FAILURE TO OVERSEE AND INVESTIGATE MURDOCH'S PROTÉGÉS AT NEWS INTERNATIONAL HAS HARMED NEWS CORP

57. The most recent and visible manifestation of the Board's pattern of indifference to misconduct at News Corp subsidiaries is a scandal involving bribery of police, phone hacking and other illegal newsgathering practices used by News of the World and other News Corp-owned newspapers over the past decade. Despite the significance of the misconduct and red flags that appeared as early as 2002, the Board, until very recently, has remained completely silent and passive on this issue – costing the Company billions of dollars in financial damage and an incalculable amount of reputational harm.

1. The Significance Of News International To News Corp's Operations And Revenue

58. News International Ltd. is the U.K. newspaper-publishing subsidiary of News Corp. News International Ltd. publishes its major titles through three subsidiaries: Times Newspaper Ltd., News Group Newspapers, and NI Free Newspapers Limited (hereinafter, News International Ltd and its subsidiaries are collectively referred to as

“News International”). News International’s major titles include the Times, the Sunday Times, the Sun, and before its abrupt closure, News of the World.

59. The News International titles provide News Corp with prestige, cross-promotional opportunities and vehicles for various public causes, along with a source of revenue. In fiscal year 2009, News Corp’s newspaper arm reported profits of \$466 million (more than 10% of the Company’s adjusted operating income). In the previous twelve month period, the newspaper division reported almost \$700 million in profits (almost 15% of the Company’s adjusted operating income). For its quarterly profits reported in May 2010, News Corp recognized a 10% increase in advertising revenue for News International.

2. The Phone Hacking And Bribery Scandals

a. Widespread Phone Hacking Takes Place In News Corp’s U.K. Subsidiaries

60. The Board’s most recent failure to oversee the newsgathering practices carried out under the watch of Murdoch’s close friends, confidantes, and staunch supporters, Rebekah Brooks and Andy Coulson, both of whom served as the chief editors of News of The World, further reflects the Board’s capitulation to the control and domination of Murdoch. Brooks also served as chief editor for the Sun, another of News Corp’s British tabloids, and until she was forced to resign in July 2011, was the CEO of News International. News International employees working under Brooks and Coulson systematically engaged in illegal wiretapping, phone-hacking, and bribery.

61. For example, in 2005, Prince William’s staff notified authorities that William’s phone had been hacked. The Prince’s aides noticed that voicemails to which

they had never listened were showing up as “saved” messages in William’s inbox. At the same time, News of the World was running a series of articles that reported startlingly intimate details of the Prince’s life. As a result of these revelations, News of the World reporter Clive Goodman and Glenn Mulcaire, a private investigator working with News of the World, were arrested in 2006 and convicted in 2007.

62. During the trial, Goodman testified that he was not the only reporter at News of the World to engage in phone hacking. The prosecutor also disclosed the company had paid numerous “research companies” to illicitly obtain information.

63. On March 2, 2007, Goodman sent a letter to a senior human resources executive of News International protesting his dismissal, and stating that phone hacking was “widely discussed in the daily editorial conferences” until “explicit reference to it was banned by the editor.” Goodman’s letter also stated that other News of the World journalists engaged in the same conduct and these actions were carried out “with full knowledge and support” of his superiors. Stuart Kuttner, then-Managing Editor, News of the World, and Les Hinton, then- Executive Chairman of News International received copies of the letter.

64. Only four days after receiving the letter, Hinton testified before the House of Commons media committee that after conducting “a full rigorous internal inquiry” that News International had determined that no one other than Goodman and Mulcaire had engaged in phone hacking, and failed to mention Goodman’s letter to the Committee. This supposedly “full” and “rigorous” inquiry was nothing of the sort, and the idea that hacking was limited to Goodman as a rogue employee has been proven absurd.

65. In July 2009, The Guardian reported that “27 different journalists from the News of the World and four from the Sun” made more than 1,000 requests to private investigators to secure wiretaps, phone records, or otherwise illegally obtain personal and confidential information. In fact, “These purchases were not secret within the News of the World office: *they were openly paid for by the accounts department with invoices that itemised illegal acts*” (emphasis added). Moreover, evidence seized in connection with the 2006 Goodman investigation revealed that “*several thousand* public figures” were targets of News International’s illegal newsgathering practices.

66. One former desk editor who worked under Coulson in 2006 described the pervasiveness of illegal behavior at News International papers:

The hacking was so routine that people didn’t realise they were doing anything wrong. They were just doing what was expected of them. People were obsessed with getting celebs’ phone numbers. There were senior people who were really scared when the Mulcaire story came out. Everyone was surprised that Clive Goodman was the only one who went down.

67. Yet another former reporter stated that Mulcaire performed illegal services in connection with almost every news story News of the World ran, from hacking into voicemail to accessing confidential databases:

The paper was paying Glenn Mulcaire £2,000 a week, and they wanted their money’s worth. *For just about every story*, they rang Glenn. It wasn’t just tapping. *It was routine*. This was just commonplace. We reckoned David Beckham had 13 different sim cards, and Glenn could hack every one of them.

68. News of the World commissioned private investigators to hack into the phones of several child murder victims, as well as phones belonging to family members of both fallen soldiers and victims of a 2005 London terrorist attack. In March 2002,

thirteen-year-old Milly Dowler was kidnapped on her way home from school and later found murdered. While Dowler was missing, News of the World paid Mulcaire to hack into the child's voicemail. As the girl's friends and family filled her mailbox with messages, News of the World recorded every word. Once Dowler's mailbox filled up and would no longer accept new messages, however, the reporters hit a wall. Greedy for more material, the paper deleted messages that had been left in the first few days after her disappearance, allowing newer messages to be recorded. The paper's illegal interference gave false hope to the girl's family and friends, who then mistakenly believed that it was Dowler who had deleted the voicemails herself. The newspaper's conduct also created confusion for police, obscured the investigation, and destroyed potentially valuable evidence.

69. Further, Brooks herself was directly involved in phone hacking. In July 2000, an eight year old, Sarah Payne, disappeared and was later found murdered. Brooks, then-editor of News of the World, gave Sarah Payne's mother a cell phone, ostensibly to keep in touch with her supporters. The public later learned that the cellphone provided by Brooks was listed among Mulcaire's notes, suggesting that the phone that Brooks provided to Payne had been hacked. Murdoch's close confidant and protégé, Brooks, preyed on the mother's suffering in order to steal a story.

70. In addition, Ian Edmondson, whom Coulson appointed, served as a news editor for News of the World, until his suspension occurred in January 2011 due to evidence that he commissioned Mulcaire to hack into the phones of actress Sienna Miller, her staff, and her friends. Significantly, this arrest provides further proof that the

tabloid's "rogue reporter" defense is a fabrication because the news editor serves as the primary liaison between the journalists and the editors.

71. In the U.S., the FBI is investigating allegations that voicemails of September 11 victims were hacked as well. In addition, actor Jude Law's voicemail may have been hacked by News of the World investigators after he arrived in New York on a trip. If true, these allegations would expose News Corp to significantly greater risk of enforcement and legal actions by U.S. criminal, regulatory, and legislative bodies.

72. The U.S. investigations could prove perilous for the Company, as they threaten News Corp's FCC licenses. Section 308(b) of the Communications Act requires broadcast licenses to be of "good character", and the FCC could use this section to revoke News Corp's licenses, depending upon the outcome of the domestic inquiries. Indeed, U.S. Senator Jay Rockefeller stated that the alleged hacking is "offensive and a serious breach of journalism ethics." If the Company lost its FCC broadcasting licenses, it would devastate the value of some of News Corp's most profitable assets.

b. News Corp's British Newspapers Bribed Police For Information And Engaged In Other Illegal Conduct In The Company's Relentless Pursuit Of Tabloid Stories

73. Although phone-hacking remains the most publicized of the misconduct that occurred at News International's tabloids, these tabloids also routinely gathered fodder for its stories by using other illegal tactics, including bribing police for confidential information, illegally gaining access to targets' computers, and "blagging," which is essentially a form of identity theft where an individual pretends to be whomever

is the target of the newsgathering in an effort to get financial, medical, or similar personal information about the target.

74. In September 2002, the Guardian published a detailed account of how journalists from a number of tabloids bought confidential information from a network of corrupt police officers through Jonathan Rees, a private investigator.

75. In 2003, while Brooks ran News of the World, the paper paid at least £100,000 pounds in cash bribes to between three and five Metropolitan police officers. At a 2003 select committee hearing, Brooks cavalierly admitted to “paying the police for information.”

76. In April 2005, News of the World was named as one of the prime customers at the trial of another private investigator, Steven Whittamore, who was employed by various tabloids to engage in illegal tactics to gather information for tabloid reporters. It is believed that he obtained this information through blagging, which has been illegal since 1994 under the U.K.’s strict data privacy laws.

77. In December 2006, the Information Commissioner Office (“ICO”), an office created by Parliament as part of U.K. Data Protection Act legislation, published a report entitled “What price privacy now?: The first six months progress in halting the unlawful trade in confidential personal information.” This report detailed efforts by the U.K. government to stop the illegal gathering and trade of confidential personal information. The report found that the twenty-three News of the World journalists were involved in 228 transactions, as part of the criminal investigation of Whittamore and one of his colleagues.

78. While editor of News of the World, Brooks used Whittamore's services on at least two occasions. Specifically, she requested Whittamore to determine who a particular mobile phone number was registered to. Brooks also used Whittamore for an electoral roll search of a particular address.

79. In 2006, while Brooks served as editor of the Sun, former British Prime Minister Gordon Brown claimed that the Sun used blagging to discover that his infant son had cystic fibrosis, a fact that at the time was only known by Brown's family and doctors. In addition, the Sunday Times is also suspected of using blagging to obtain Brown's confidential property and financial information for its stories.

80. Both Coulson and Brooks knew about the rampant use of illegal news gathering practices at News International's papers because such practices were so widespread and ingrained. Indeed, Sean Hoare, a former reporter who worked at News of the World for over ten years, often closely with Coulson, stated, "Either [Coulson] was a dreadful editor or a liar. You cannot run a newspaper and not know where things come from." At News of the World, phone hacking "was encouraged as long as you didn't get caught. [Coulson] was aware that the practice was going on." Hoare also stated that he played illegally hacked voicemails for Coulson while the two worked together at the Sun.

81. Likewise, Paul McMullan, a former features executive and then-member of News of the World's investigations team, stated that he personally commissioned private investigators to commit "several hundred acts which could be regarded as unlawful, that use of illegal techniques was no secret at the paper, and that senior editors, including Coulson were aware this was going on."

82. Another veteran reporter who worked for Coulson said that “Coulson absolutely knew. They all knew It was a regular daily joke in conference: ‘say no more.’ Andy would ask questions in conference. And he’d be told: ‘nudge, nudge.’”

83. In addition to inquiries into phone-hacking and police bribery, U.K. officials opened another investigation into alleged computer hacking amid numerous reports that News International tabloids engaged extensively in computer hacking as another illegal newsgathering technique. For example, a former British Army intelligence officer recently sued News International, claiming that in 2006 it had hired a computer expert to hack into his email. In addition, several of the attorneys representing a number of the phone-hacking victims stated that they saw evidence of potential computer hacking as well.

**c. Rupert Murdoch And Other Top News Corp Executives
Are Intimately Involved In The Operations Of News
International And Other News Corp Subsidiaries**

84. Due to News International’s importance to the Company and the Murdochs, the Murdochs are heavily involved in the subsidiary’s operations, and the division receives considerable attention at the Board level. Murdoch, an engaged boss, stays abreast of his various news sources on a daily basis. Murdoch’s use of the Company’s news divisions as a vehicle for his personal social and political agendas further shows that he is heavily involved in their operations. Indeed, commentators have noted that Murdoch traditionally ruled News Corp with an iron fist, and hand-selected the very people most heavily involved in the hacking scandal. For example, Roy Greenslade, a former Murdoch editor who is now a professor of journalism at City University

London, stated “[Y]ou can see through the way the Sun and the News of the World operate that [Murdoch’s] word remains law.”

85. Murdoch and James Murdoch also maintain a long and close professional and personal relationship with Brooks. In fact, media circles recognize Brooks for conquering the world of tabloid journalism with meteoric success and becoming Rupert Murdoch’s U.K. proxy.

86. Murdoch regards Brooks “as a kind of favorite daughter”, and “he’s just very, very attached to her.” Murdoch has promoted Brooks swiftly through his newspapers’ ranks: Brooks went from secretary to editor-in-chief at News of the World in just eleven years. Murdoch then moved Brooks to the top spot at the Sun, Britain’s highest-selling daily newspaper. Two years ago, Murdoch promoted Brooks to CEO of News International. Murdoch continued to support Brooks even as she became more tainted by the scandal. Indeed, the first time that Brooks offered her resignation following the breaking of the scandal, Murdoch rejected it. In addition, when questioned about his priority after arriving in London to attempt to provide leadership in the wake of the scandal, Murdoch pointed to Brooks and said “This one” – implying that protecting her was his paramount objective.

87. Brooks’ arrest, over phone hacking and corruption allegations, came two days after her resignation as CEO of News International on July 15, 2011. In the immediately preceding days, she appeared alongside Murdoch as they sought to downplay the extent of the Company’s improper wire-tapping and bribery.

88. Likewise, Les Hinton, who spent more than fifty years working for Murdoch, is described by Company insiders as one of Murdoch's "consiglieri." Hinton ran News International starting in 1995 until he left in 2007 to run Dow Jones & Co., and therefore, was at the helm when the phone hacking and police payments occurred. Hinton is now accused of giving misleading information to the U.K. Parliament in 2007 and 2009, by saying that no widespread improprieties occurred within News International. When Hinton was forced to resign in light of the scandal, Murdoch stated that Hinton's resignation was a "matter of much sadness." Murdoch's close ties with Hinton make it inconceivable that Hinton would not have informed Murdoch about the phone hacking practices at News International at the time that they happened.

**d. The Board Knew About But Disregarded Systemic
Illegal Conduct At News Corp's British Newspapers**

89. Over the past decade, as described above, senior employees at the News of the World and the Sun engaged in a massive scheme to intercept voicemail and other forms of electronic communications to obtain stories for these papers. The News Corp Board either knew or should have known about this information well before the revelations of the last few months.

90. In this regard, News Corp's Board should have learned that reporters from News of the World used illegal means to gather news during Brooks' tenure as chief editor of News of the World from 2000 to 2003, given the Murdochs' close personal and professional relationship with Brooks. In addition, the interrelation between News International and News Corp, particularly James Murdoch's leadership of the former and

directorship of the latter, kept News International's operations at the forefront of the Board's activities and oversight.

91. A specific red flag emerged in September 2002, when the Guardian published a detailed account of how journalists bought confidential information from Rees. The Board received its next unambiguous red flag in April 2005 when the ICO specifically named News of the World as one of the primary customers of Whittamore (the private investigator being investigated by the ICO), and reflected 228 transactions involving 23 News of the World journalists.

92. News Corp's Board received (or should have received) another red flag in 2005 as a result of the investigation and trial resulting from the events that ensued after Prince William's staff notified authorities that William's phone was hacked. An initial police investigation into the newspaper's conduct resulted in the January 2007 convictions of Goodman and Mulcaire. Andy Coulson, the paper's editor, resigned in the midst of the scandal.

93. Another red flag emerged on February 9, 2010, when a British Parliament committee issued a report that found it was "inconceivable" that the one reporter blamed by News Corp for the scandal could be the only person at News Corp to have been involved. The report chastised the Company for failing to adequately investigate the scandal: "Despite [evidence that others were involved], there was no further investigation of who those 'others' might be and we are concerned at the readiness of all of those involved . . . to leave [sic] Goodman as the sole scapegoat without carrying out a full

investigation at the time. The newspaper's enquiries were far from 'full' or 'rigorous', as we – and the [Press Complaints Commission] – had been assured.”

94. James Murdoch's own statements in the wake of this scandal demonstrate that News Corp's Board failed to exercise any oversight over the Company's affairs, and, indeed, affirmatively sanctioned or, at the very least, turned a blind eye to rampant illegality taking place at News Corp's newspapers. In a press release issued July 7, 2011, James said, “The News of the World is in the business of holding others to account. But it failed when it came to itself.” James further admitted that “News of the World and News International failed to get to the bottom of repeated wrongdoing that occurred without conscience or legitimate purpose.” With respect to payment of gag money, James said “The Company paid out-of-court settlements approved by me. I now know that I did not have a complete picture when I did so. This was wrong and is a matter of serious regret.”

95. Various additional red flags (discussed below) existed for the Board that strongly suggested that phone hacking and other illegal newsgathering techniques were rampant at News International papers, including News of the World. The Board, however, did not want to investigate these red flags because, as is clear from News Corp's track record, the Board blindly follows the instructions of Murdoch, and Murdoch did not want this conduct investigated.

3. The Cover-Up

96. Rather than following-up on the red flags and seeking to uncover wrongdoing within News International, News Corp's executives, and in some cases

Board members, took affirmative steps to hide the wrong-doing from investors and the public at large. News Corp used its governmental contacts when necessary and bought silence when it had to in order to avoid disclosure of its wrongdoing.

**a. News International Pays “Hush Money” To Purchase
The Silence Of Hacking Victims**

97. During its 2006 investigation of Goodman and Mulcaire, Scotland Yard seized copious computer records, audiotapes, handwritten notes, and other documentary evidence. Those records contained the names of 4,332 people whom the two men were interested in targeting, 2,978 mobile phone numbers, thirty tapes appearing to contain voicemail messages, and ninety-one PIN codes used to access voicemail boxes.

98. Scotland Yard (despite the mountains of evidence at its fingertips) notified only five individuals (apart from members of the royal household) that their voicemail messages may have been intercepted. Two of those five people, Gordon Taylor, CEO of the Professional Footballers’ Association, and Max Clifford, a powerful British publicist, chose to sue News International.

99. In response to Taylor’s lawsuit, News International executives initially denied that the company was involved in hacking Taylor’s phone and claimed that no records of any intercepted voicemail messages had been kept. But, at the request of Taylor’s lawyers, the court ordered the production of evidence seized by Scotland Yard in the Goodman inquiry and a subsequent Information Commission investigation. The documents revealed, among other things, an email from a News of the World reporter to News of the World’s chief reporter Neville Thurlbeck sending transcripts of thirty-five voicemail messages intercepted by Mulcaire. This document became known as the “For

Neville” email, and it took center stage in the recent firestorm of attention focused on News Corp and particularly on James Murdoch.

100. The “For Neville” email contained transcripts of fifteen voicemail messages from Taylor’s phone and seventeen transcripts of voicemails from the phone of a business associate of Taylor. Crone, then-News of the World’s legal manager, and Colin Myler, News of the World’s then-editor, recognizing that this email undermined the News International lie of a single rogue reporter involved in phone hacking, *immediately brought this document to James Murdoch’s attention and sought his approval for a substantial settlement with Taylor* in order to keep this document, and Taylor’s other evidence, under wraps.

101. Based upon these revelations, in June 2008, News International sought to stop the lawsuits by offering Taylor £700,000 pounds in exchange for his silence. News International then quickly made a similar deal with Clifford and one other individual, paying more than £1 million in gag money in total.

102. Crone and Myler presented the settlement figure to James Murdoch along with their recommendation to approve it. On July 7, 2011, James Murdoch admitted to *personally* approving these settlements. In response to Parliament’s request for information, Myler and Crone confirmed their positions in previously-submitted letters, namely that James Murdoch knew about the “For Neville email” when he approved the settlements, undermining his and the Board’s absurd contention that phone hacking was not limited to a single rogue reporter.

103. News International also managed to persuade the British courts to seal all proceedings, hiding evidence of News Corp's misconduct from public scrutiny. The Company further insisted on including an extensive confidentiality provision in the settlement agreement to prevent Taylor or his attorney from speaking about the matter. The amount of the settlement, £700,000, far exceeded amounts that had been awarded by U.K. courts in similar lawsuits, thus, confirming that a major purpose of the settlement was the confidentiality agreement to keep the matter under wraps. In a letter to the House of Commons Culture, Media, and Sports Committee, James Murdoch confirmed that confidentiality was an important factor in the astronomical settlement amount:

[Previously] I had understood that the amount was based on a judgement of the likely damages that could be awarded, and the costs and expenses associated with the litigation. ... Since I gave this response, I have been informed that confidentiality was a factor in determining the amount of the settlement payment...

104. Negotiating Taylor's payout occurred against the backdrop of another payout made under James Murdoch. On July 24, 2008, former President of the Fédération Internationale de l'Automobile ("FIA"), Max Mosley, won a privacy case against the Company, for £60,000. The Mosley case involved salacious News of the World headlines about Mosley's participation in a group sex session with women, and the newspaper's subsequent efforts to blackmail other participants into detailing the encounter.

105. News International even agreed to "pay-off" with promise of future employment its disgraced former reporter Clive Goodman for his silence. In Goodman's March 2007 letter to Les Hinton and others at News International, he stated that Crone

and Myler “promised on many occasions that I could come back to a job at the newspaper if I did not implicate the paper or any of its staff in my mitigation plea. I did not, and I expect the paper to honour its promise to me.”

b. News International Seeks To Hide Incriminating Documents

106. The scandal further intensified in early 2011, when a “lost” hoard of emails sent by senior executives in Murdoch’s newspaper empire at the height of the phone-hacking scandal was found – after News International claimed that they were lost in a transfer to Mumbai, prompting further criminal investigations in Britain.

107. Moreover, according to an IT vendor, News International has requested email deletions nine times in the past fifteen months. Police suspect that a large cache of email archives has been deleted, dating back to 2005 (with the most recent suspected deletion having taken place in January 2011). News International executives also tried to hide the contents of a senior reporter’s desk after he was arrested.

108. Not surprisingly, in its July 20, 2011 report, the House of Commons Select Committee condemned News International’s response to the phone-hacking allegations: “We deplore the response of News International to the original investigation into hacking. It is almost impossible to escape the conclusion ... that they were deliberately trying to thwart a criminal investigation.”

c. News Corp Undertakes A Halfhearted Investigations

109. Clear evidence of widespread use of illegal newsgathering techniques existed that warranted thorough investigation by the Company and its Board. Nevertheless, News International pursued only a partial investigation with an extremely

limited mandate. Murdoch and others at News Corp then distorted the scope of these limited-mandate investigations to tell the world that they supported News Corp's one rogue reporter lie, even though the investigations intentionally were not designed to determine whether there was widespread misconduct at News of the World. Moreover, News Corp and its Board refused to undertake any investigation into the matter at all until a firestorm erupted in July 2011.

110. When the Goodman and Mulcaire arrests occurred in 2006, News of the World retained the law firm of BCL Burton Copeland. Although Crone told a Parliamentary Committee in July 2009 that the firm was "brought in to go over everything and find out what had gone on, to liaise with police," the investigation was limited primarily to one investigator on News of the World's payroll (Mulcaire) and did not include interviews of any News of the World staff or the review of emails sent by executives or journalists. The details of Burton Copeland's methods and findings were not fully disclosed, and on July 22, 2011, Burton Copeland ceased advising News International about the phone-hacking scandal for an undisclosed reason.

111. In 2007, News International retained another British law firm, Harbottle & Lewis, in connection with a wrongful termination lawsuit brought by Goodman. Jon Chapman, head of News International's legal department, asked Harbottle & Lewis to review emails that the company recovered, but only provided the law firm with emails from *six* of the 200 employees at News of the World. In a letter response to Parliament, Harbottle & Lewis noted the extremely limited nature of the review requested by News International. In fact, News International only paid Harbottle & Lewis £10,000 for its

review, which belies the sworn testimony of Rupert and James Murdoch and others at News Corp and News International that this was (or was intended to be) a thorough investigation of wrongdoing at News of the World. Despite the incredibly narrow scope of the Harbottle & Lewis engagement, James Murdoch nevertheless told the Culture, Media, and Sport Select Committee of the House of Commons that the law firm had given News International “a clean bill of health.” The Harbottle firm subsequently made clear, through its own submission to Parliament, that it would not endorse James Murdoch’s characterization of the prior investigation.

112. Notably, both News International and Harbottle & Lewis reviewed an email from Goodman to Coulson in which Goodman requested £1,000 to pay a police officer in the royal protection unit for a copy of the Green Book directory, which contained private numbers for the queen, other royal family members, and their associates. In another email, Coulson said he did not want to go into detail about cash payments because those involved could “go to prison for this.”

4. Murdoch, James Murdoch And Brooks Testify Before The U.K. Parliament’s Culture, Media And Sport Committee Concerning Corporate Governance Issues And The Hacking Scandal

113. On July 12, 2011, the British Parliament summoned Murdoch, James Murdoch, and Brooks to appear before the UK Parliament’s Culture, Media and Sport Committee (the “CMS Committee”). The Murdochs initially refused to attend the hearing, but appeared on July 19, only after they received a formal summons. The hearing re-opened the inquiry that the CMS Committee held in 2009 regarding press standards, privacy, and libel, and also focused on evidence about the phone hacking that

occurred at the News of the World. With the recent evidence emerging in the hacking scandal, the CMS Committee expressed that it was “clear that Parliament has been misled” in the 2009 proceeding.

114. In this regard, the CMS Committee inquired about whether anyone who had testified in the prior committee proceeding had lied. Both Murdochs claimed that they had no knowledge on that issue. James Murdoch also testified that he had no knowledge of the recent evidence (primarily the “For Neville” e-mail) that expanded the hacking scandal beyond one rogue reporter until the end of December 2010, when documents were produced in civil litigation brought by the actress, Sienna Miller, against the Company. James Murdoch further denied having had any information about the Milly Dowler case until The Guardian reported on that story.

115. Shortly after James Murdoch testified, two former News International senior executives, Crone and Myler, challenged James Murdoch’s testimony, claiming that they had told him years ago about an email that showed that the wrongdoing at News of the World was much more widespread than the Company acknowledged.

116. In a resumption of the hearing held on September 6, 2011, Myler and Crone said it was “inconceivable” that James Murdoch was unaware in 2008 of the significance of the “For Neville” e-mail which proved hacking went beyond a single rogue reporter at the Sunday newspaper. They testified that the meeting at which the “For Neville” e-mail was discussed resulted in James Murdoch authorizing payments to settle on-going litigation. Crone noted: “Since he gave us the authority we were asking for, I would take it that for the first time he realised News of the World was involved [in

hacking] and that involvement involved people going beyond Clive Goodman.” Crone further testified that “There was evidence that illegal activity had passed through our office and that the News of the World was implicated. I would have explained the background to the litigation and the stance we had taken up and would have explained what this document meant.”

117. Additional evidence of the Company’s lack of controls emerged from the CMS Committee’s questioning in July 2011, about the arrest of Clive Goodman and Glen Mulcaire. Murdoch testified that speaking to Les Hinton was the only action that he took to investigate the extent of the hacking. Notably, Les Hinton’s testimony before the CMS Committee in 2007, where he stated that News of the World had “carried out a full, rigorous internal inquiry” into the use of illegal phone hacking by the newspaper and was “absolutely convinced” it was limited to “one rogue reporter.” News Corp has now conceded that testimony is not true. Similarly, neither Murdoch nor anybody else made any effort to investigate the Company’s practices after Brooks testified in 2003, and admitted that News of the World paid police for information.

118. Murdoch’s testimony further demonstrated that News Corp prefers to largely rely upon the police – with which News International historically has had a cozy relationship – to find wrongdoing at the Company, rather than implementing its own investigation, and will only take action if forced to do so by governmental authorities. For example, when questioned why no one was fired in April 2011 after the Company admitted that News of the World had engaged in criminal interception of voicemails, Murdoch stated that it “was not our job to get in the course of justice. It was up to the

police to bring the charges and to carry out their investigation.” Likewise, when the CMS Committee inquired as to whether the Company would introduce another investigation if other forms of illicit surveillance like computer hacking were discovered, Murdoch testified, “That would be up to the police. . .if they wanted us to do it, we would do it.” News Corp has not just failed to reach the ideals of good corporate governance, it has openly rejected the basic norms.

119. During the July 19 hearing, Murdoch admitted that News Corp is a “family business”, and he “would love to see [his] sons and daughters follow if they are interested.”

5. News Corp’s Board – Years After Red Flags First Appeared – Establishes A Committee Of Questionable Independence To Investigate

120. After the hacking scandal broke in July 2011, News International finally formed a Management and Standards Committee (the “M&S Committee”) to handle the crisis. The M&S Committee was tainted with a lack of independence since its formation. In this regard, the committee originally reported to Brooks – the same editor who was in charge of News of the World when the hacking incident involving Dowler and police bribes occurred. In addition, Will Lewis, a News International general manager, Simon Greenberg, News International’s director of communications, and Jeff Palker, News Corp’s general counsel for Europe and Asia, were assigned to the committee.

121. On July 8, 2011, recognizing the compromised nature of the existing investigation, Murdoch announced that Brooks would no longer manage the internal investigation. Instead of appointing an independent person, much less outside legal

counsel as is customary, to lead this investigation, Murdoch stated that the M&S Committee would report to directly to News Corp's executive vice president and director, Klein – Murdoch's closest and most visible advisor during the scandal. Klein in turn would work with ostensibly independent director Viet Dinh, who is himself a close Murdoch family friend.

122. Klein is a News Corp employee who earns more than \$4.5 million a year. His position at new Corp is as a personal assistant to Murdoch and Murdoch gave Klein his job and appointed him to the Board. In fact, Murdoch and Klein were friends long before Klein became a News Corp employee and a director. When Klein was the New York City School Chancellor, he and Murdoch began discussing educational issues over regular lunches and dinner with their wives. Murdoch also donated at least \$1 million of his own money to Klein's advocacy group, Education Reform Now. Eventually their friendship and political alliance turned into a multi-million dollar a year job at News Corp. with an office just down the hall from Murdoch's office, and frequent trips on Murdoch's private jet. Klein, a personal friend of and assistant to Murdoch, who owes Murdoch his livelihood, cannot be depended upon to exercise independent judgment related to the M&S Committee's investigation.

123. When the scandal broke, Klein was the first to arrive in London to help Murdoch handle the fallout, and moved into a temporary office twenty feet from Murdoch's office. Klein further weighed in on the drafts of a statement that Murdoch wrote to deliver to the U.K. Parliament, and sat directly behind Murdoch while he testified before the U.K. Parliament. In addition, when three of News of the World

journalists were arrested in April on suspicion of hacking, some executives pushed for an investigation that would have the full backing of the Board and senior management. Murdoch, however, opposed the idea outright, and Klein supported Murdoch's decision.

124. Dinh, who is the point person to keep the Board informed about all developments related to the investigation, also lacks independence. In this regard, Dinh suffers from a conflict of interest due to his close ties with the Murdoch family. Among other things, Dinh is the godfather to Lachlan Murdoch's second child.

125. In fact all of the Board's purportedly independent directors showed their lack of independence when Thomas Perkins, on behalf of the Board as a whole, made clear that any investigation was simply a whitewash because they had already made up their minds. Specifically, on July 17, 2011, Perkins publicly pronounced that the Board "is fully supportive of the top management," and that "We've known about the phone hacking for a long time. We were told and top management, I'm sure, believed that the early news was the whole story. There's no reason to believe top management was lying. That's my very strong belief." For the avoidance of any doubt about where the Board's loyalties lie, Perkins added that even before conducting any investigation, "The board supports top management."

126. These statements demonstrate that the Board intends to turn a blind eye to any role that senior management, including Murdoch and James Murdoch, had in the hacking scandal. These statements further confirm that the Board will not judge Murdoch, but instead, the Board will stand by Murdoch to ensure that he retains his position as the Company's CEO and Chairman, notwithstanding the limited investigation

by the M&S Committee, which only focuses on the activities of one of News Corp's many subsidiaries.

127. On July 18, 2011, the Company announced that Lord Grabiner QC would join the M&S Committee as its chair, to supposedly make this committee "independent". Notably, however, Lord Grabiner will report to Klein, who in turn reports to Dinh, and will work with the committee members, who are all employees of the Company – all of whom lack independence. One supposedly independent person cannot make a whole committee independent. In addition, Lord Grabiner appears to have a prior relationship with Murdoch, and a bias for protecting Murdoch since Grabiner has already praised Murdoch in the press by calling him "astute, very clever, and listens to my advice".

128. The Company has a history of setting up purportedly independent committees that do little more than provide cover for Murdoch. For example, when News Corp acquired Dow Jones, it pledged to create an editorial oversight committee to keep Murdoch from trying to install his own people at the Wall Street Journal. Yet, within a year of the takeover, Murdoch had negotiated a hefty payout out for the paper's top editor in exchange for his resignation. Murdoch then quickly installed Les Hinton, his trusted friend from News Corp.

6. Significant Fallout Has Resulted From The Hacking Scandal That Has Caused Immense Reputational And Financial Harm To News Corp and Its Shareholders

a. News International Fallout

129. On July 7, 2011, James Murdoch announced he was closing News of the World after 168 years. The newspaper's journalists were shocked and angry that they

were losing their jobs, but Brooks was remaining at the helm despite the public revulsion with Brooks' conduct.

130. On July 13, 2011, the senior lawyer who vetted News of the World stories for more than twenty years, Tom Crone, left the Company with a \$2.5 million severance package. News International declined to confirm whether he resigned or was asked to leave.

131. On July 15, 2011, Brooks resigned from her position at the Company with a \$5.6 million severance package. Brooks, however, inexplicably remains on the Company payroll, further evidence of the Murdochs' fondness for her and the Company's inability to effectuate genuine reform at its core. In fact, Murdoch reportedly told her to simply travel the world for a year and he will find her a job when the scandal has died down.

132. Also on July 15, 2011, Les Hinton resigned from his positions as Executive Chairman of News International and CEO of Dow Jones, and is expected to receive a lucrative severance package.

133. The pressure continues to mount for Murdoch to be truthful about the Company's conduct, and Murdoch is drawing criticism for the Company's inability to take responsibility and impose remedial measures from the U.K. Government. Deputy Prime Minister Nick Clegg said Murdoch "needs to come absolutely clean about what he knew, about what his senior executives knew, and why this culture of industrial-scale corruption – so it is alleged – appeared to have grown up without anyone higher up in the food chain taking any real responsibility for it."

b. A Multitude of Arrests

134. As part of Operation Weeting, which is investigating phone hacking, and Operation Elveden, which is investigating allegations of inappropriate payments to police, Brooks was arrested on July 17, 2011 on suspicion of conspiring to intercept communications in violation of U.K. criminal law, and on suspicion of corruption allegations in violation of the U.K.'s Prevention of Corruption Act of 1906.

135. Coulson was also arrested in connection with the hacking allegations. Coulson became deputy editor of News of the World in 2000, acting as a sturdy lieutenant to Brooks. He succeeded his mentor Brooks and presided over the paper until 2007. He resigned in January 2007 over a hacking affair that led to Goodman's imprisonment. After resigning from News of the World, Coulson became the Conservative party's communications chief in July 2007, and later Prime Minister David Cameron's director of communications. It has recently come to light that following his resignation, Coulson continued to receive his salary from News of the World through the end of 2007, despite the fact that party officials repeatedly claimed that Coulson received no other income while working for the Conservative Party.

136. The revelations have led to accusations that Coulson was acting as a sort of "double agent" while being paid by both the Party and the newspaper. The payments to Coulson may constitute undisclosed campaign contributions, and one employment lawyer stated: "It's most unusual to have two paymasters and it is most unusual to have payments in installments when you leave a company. Even more unusual is for the second paymaster to not know about the first; because of tax and other considerations you

would think it necessary to disclose the information.” Moreover, Coulson improperly failed to disclose his continuing News of the World salary in his application for Parliament credentials. In addition, Coulson has and continues to have his legal fees paid for by News International, an arrangement that further evidences the continuing close ties between Coulson and News International, and utter lack of internal controls at News Corp to ensure the Company complies with the law.

137. Numerous other arrests stem from the hacking scandal.

c. News Corp’s Market Value Plummets

138. The recent scandals have not only sparked an international outrage and led to multiple investigations of News Corp’s employees and publishing businesses, but have also damaged the Company’s reputation and bottom line.

139. In the four trading days following News of the World’s closure, ***News Corp lost roughly \$7 billion in market value.*** It was the fourth straight decline in the Company’s closing price, cutting its market value by 15%. By August 10, the Company’s stock price had dropped below \$14 a share, from the \$17-18 per share range of earlier in the year.

140. One analyst with RBC Capital Markets noted the public’s concern with News Corp’s continued presence in the headlines for unsavory practices, stating: “These headlines cause massive swings in sentiment and stock price, leaving a cloud of uncertainty about how deep the allegations go.”

d. The BSkyB Deal Falls Apart

141. On June 10, 2010, News Corp offered to purchase the 61% of broadcasting company British Sky Broadcasting Group PLC (“BSkyB”) that it did not already own.

142. On June 15, 2010, the offer was rejected and BSkyB’s independent directors released a statement, and unanimously considered “the terms of the Proposal to undervalue significantly BSkyB” and stating that “they would not recommend an offer if it were made at 700 pence per share today, the price indicated in the Proposal.”

143. While price remained a sticking point, BSkyB thereafter entered into a cooperation agreement with News Corp “recognising that an offer could be in the interests of shareholders.”

144. By March 2011, the British culture secretary Jeremy Hunt approved the structure for the deal that would satisfy applicable regulations for the combination. By June 30, 2011, the two sides were on track to agree to a deal by the end of July 2011.

145. On July 11, 2011 U.K. Deputy Prime Minister Nick Clegg asked Murdoch to “reconsider” the BSkyB offer following allegations concerning News of the World’s privacy invasions.

146. On July 13, 2011, News Corp issued a press release stating that it no longer intended to make an offer for the entire issued and to be issued share capital of BSkyB. The Company acknowledged that the hacking scandal derailed what was widely accepted as an excellent strategic play by News Corp. Chase Carey, Deputy Chairman, President and Chief Operating Officer of News Corp commented: “We believed that the

proposed acquisition of BSkyB by News Corporation would benefit both companies but it has become clear that it is too difficult to progress in this climate.”

147. The scuttled BSkyB deal – wholly a result of the hacking scandal and related fallout – will cost the Company untold cross-marketing opportunities as well as any additional revenue that would have resulted from owning the entirety of the successful broadcaster.

148. While the total damage to the Company from this development is immense, one definitive cost stems from News Corp’s obligation to pay BSkyB a £38.5m break fee for pulling out of the deal. The Company likely faces an additional £5m to £10m in related legal fees.

149. Any future attempt to acquire the remainder of BSkyB may also be plagued by the aftermath of the hacking scandal. Because lying to Parliament carries the stigma of dishonor, the Murdochs could fail the “fit and proper person” test applied by the independent regulator and competition authority for the U.K. communications industries, the Office of Communication (“Ofcom”), costing News Corp the ability to acquire BSkyB entirely. Some government officials and reporters have called on News Corp to actually divest the 39% of BSkyB it does own, as the Company comes under repeated fire for using its vast media enterprise to exert itself, particularly in the U.K. Ofcom wrote to the chairman of the British Culture, Media and Sport Committee, and stated that it was “monitoring the situation closely” concerning whether News Corp was fit and proper to hold a significant stake in BSkyB at all.

**e. News Corp Is The Subject Of A Dizzying Array Of
Governmental Investigations And Private Lawsuits
Around the World**

150. The conduct of the nearly dozen News Corp current or former employees that were arrested, as well as the conduct of their colleagues and News Corp's senior managers and Board, is exposing the Company to many millions of dollars in civil litigation, and possibly criminal liability.

151. Reports suggest that upwards of 4,000 individuals were the direct victim of hacking attacks, all of whom have potential claims against the Company. While News Corp has already set aside at least \$30 million to compensate victims of hacking, this amount is sure to grow as thus far only roughly thirty-five related lawsuits have been filed by victims.

152. Also, former News of the World employees who lost their jobs after the Company's hasty closure of the newspaper may assert claims against News Corp for diminished employment opportunities as a result of the scarlet letter that they have been forced to wear in light of their association with the scandal.

153. In addition to at least two investigations ongoing by U.K. authorities, in early July 2011 the FBI opened a probe into whether News Corp employees sought to hack into the phones of victims of the September 11, 2001 terrorist attacks, and tried to bribe law enforcement officers for information.

154. On August 24, 2011, family members of the victims of the September 11 attacks met with top Justice Department officials, and requested that the inquiry be widen

to investigate whether News Corp employees hacked into family members' computers as well.

155. Further, various U.S. senators have sent letters to U.S. Attorney General Eric Holder, asking him to look into concerns that News Corp violated the Foreign Corrupt Practices Act ("FCPA"). Holder stated on July 15, 2011 that "[T]here have been members of Congress in the United States who have asked us to investigate those same allegations . . . and we are progressing in the regard using the appropriate federal agencies in the United States."

156. By July 22, 2011, the U.S. Justice Department was preparing subpoenas as part of preliminary investigations into News Corp. relating to both foreign bribery and hacking of voicemail of September 11 victims. The issuance of subpoenas represented an escalation of scrutiny on the News Corp's affairs in the U.S. While the Company has sought to isolate the legal problems in the U.K., News Corp is bracing for increased scrutiny from both the Justice Department and the SEC costing the Company and its shareholders millions of dollars in legal fees.

157. On July 22, 2011, Strathclyde Police confirmed an investigation into phone hacking and breaches of data protection in Scotland. The Scottish probe centers on allegations that witnesses gave perjured evidence in the trial of ex-MSP Tommy Sheridan, a former Scottish Socialist Party leader, who was jailed for three years for lying under oath.

158. The Australian government is also examining News Corp's operations. Julia Gillard, Australia's prime minister, has called on Murdoch's Australian subsidiary

to answer “hard questions” in the light of the U.K. phone hacking scandal. This news is particularly troubling for the Company’s reputation and influence because Murdoch began acquiring media companies in his native Australia, which allowed him to begin acquiring media companies in the U.S., the U.K., and elsewhere beginning in the 1970s.

f. Threat to the Company’s Operations

159. As a result of the hacking allegations and related revelations of News Corp’s conduct, British Labour party leader Ed Miliband has called for new media ownership rules in the U.K. to limit the “dangerous” concentration of power in Murdoch’s hands. Miliband has stated that Murdoch had an “unhealthy” market share which led to “abuses of power.”

160. Miliband elaborated that current media ownership rules were outdated, describing them as “analogue rules for a digital age” that do not take into account the advent of mass digital and satellite broadcasting.

161. News Corp has been successful and profitable as a multi-dimensional media company, and Murdoch’s abuse of the power that results from the size and breadth of its operations stands to cost the Company greatly. If Miliband’s initiative to limit the breadth of Murdoch’s influence succeeds, News Corp will be forced to divest assets for less than full value, and will lose the value it derives from cross-marketing and its breadth of operations. Indeed, there have been reports that Murdoch has already sought buyers for News International, a prospective sale of which would never result in full value for the Company.

162. In addition, the Company has lost valuable contracts in an array of other operational areas as a direct result of the hacking scandal. For example, on August 27, 2011, New York State announced that it had ended its relationship with Wireless Generation, a technology company partially owned by News Corp that specializes in software for teachers. Wireless Generation was set to make about \$27 million from its contract with the state, and News Corp's \$360 million investment in 2010 appears to be in jeopardy. Further, U.S. investigations increase the likelihood that the FCC could actually revoke the Company's lucrative broadcasting licenses. "I think it's a realistic possibility," said David Gurwin, chairman of the entertainment and media law group and the technology transactions group at Buchanan Ingersoll & Rooney. If James Murdoch faces criminal charges related to growing scandal, it is almost certain that News Corp's FCC licenses will be challenged.

163. News Corp also has the potential to lose more revenue due to advertisers pulling out if the scandal continues to widen. Before News Corp decided to close News of the World, many advertisers, including Lloyds Banking Group and Ford Motor Company, among others, declared that they would no longer advertise in the paper. In fact, Renault declared that it would no longer advertise in any News International newspapers.

164. The Company has admitted that it cannot predict the effect and total damage to the Company from the hacking scandal. In the Company's annual report for 10-K filed on August 15, 2011, it stated:

We face criminal investigations regarding allegations of phone hacking and inappropriate payments to police and other related matters and related civil lawsuits.

U.K. and U.S. regulators and governmental authorities are conducting investigations after allegations of phone hacking and inappropriate payments to police at our former publication, News of the World, and other related matters, including investigations into whether similar conduct may have occurred at the Company's subsidiaries outside of the U.K. The Company is cooperating fully with these investigations.

We are not able to predict the ultimate outcome or cost of the investigations. Violations of law may result in civil, administrative or criminal fines or penalties. It is also possible that ***these proceedings could damage our reputation and might impair our ability to conduct our business.*** Any fees, expenses, fines, penalties, judgments or settlements which might be incurred by the Company in connection with the various proceedings ***could affect the Company's results of operations and financial condition.*** (Emphases added).

C. THE BOARD'S LONGSTANDING PRACTICE OF LETTING MURDOCH OPERATE NEWS CORP AS HIS OWN PRIVATE FIEFDOM

165. Murdoch has amassed a personal fortune of over \$6 billion while running News Corp as little more than a sole proprietorship. As explained herein, the News Corp Board consistently fails to act in the public shareholders' best interest, permitting related-party transactions and Murdoch-driven deals to proceed despite their harm to the Company and its shareholders.

166. Numerous examples reflect that the News Corp Board has totally abdicated its responsibility of independent oversight, and has become a rubberstamp for the desires of its domineering CEO, including: (i) condoning blatant nepotism in conducting the Company's business; (ii) approving actions designed to perpetuate Murdoch's control over News Corp; (iii) allowing Murdoch to pick and choose who is on

and who is off the Board; (iv) permitting actions driven by Murdoch's personal or political agenda; and (v) accepting excessive compensation for Murdoch.

167. The Board's inability or unwillingness to reign in Murdoch's use of the Company for his own benefit has resulted in the "Murdoch Discount," a steep discount in the value of News Corp shares reducing the Company's market capitalization by tens of billions of dollars. It has also resulted in widespread calls for corporate governance reforms for the Company.

1. The Board's Approval Of Nepotism Within News Corp's Management

168. Murdoch runs News Corp like a "family business" – a practice continued through the News Corp's acquisition earlier this year of his daughter Elisabeth's Shine business. Indeed, Murdoch already has two family members on News Corp's Board, and had intended to use the Shine Transaction as a means to get his daughter on the Board, until this litigation challenging her appointment forced Elisabeth Murdoch to concede that it would be "inappropriate" to join the Board at this time. For now, News Corp has delayed its previously planned nomination of Elisabeth Murdoch, although Murdoch still wants to see Elisabeth join the Board in the future.

169. At Murdoch's behest, his son, Defendant Lachlan Murdoch, was elevated at a very young age to very senior executive positions within the Company. In fact, Lachlan was handed a seat on the Board, which he continues to hold even though he left the Company in 2005, disappointing Murdoch's plan for Lachlan to take the reins of the Murdoch media empire. Significantly, when Lachlan resigned, his position as Deputy Chief Operating Officer, which has been described by news sources as "a concocted

one,” was eliminated and his responsibilities simply divided between other executives. Despite the fact that Lachlan’s position was fabricated merely to give him a glorified title, the Board still granted him an \$8 million severance package.

170. Murdoch also installed his other son, James, at News Corp in 1996, when Murdoch caused the Company to buy an 80% stake in James’s money-losing start-up, Rawkus Entertainment. The acquisition was rationalized by many as a means to bring James Murdoch into the News Corp fold, where he has remained ever since. Rawkus ceased operations in 2004.

171. Murdoch ensured that James rose rapidly within the Company, to the point that James is now a Director and the Chairman and Chief Executive, Europe and Asia, responsible for News Corp assets such as News International, SKY Italia and STAR TV. He is also non-executive chairman of BSkyB, in which News Corp has a controlling minority stake and which it had planned to own outright before the acquisition was scuttled by the hacking scandal. On March 30, 2011, James Murdoch was elevated, by his father’s fiat, to the newly re-created (but still “concocted”) position of Deputy Chief Operating Officer, while still retaining his prior title as Chief Executive Officer of the Company’s international divisions. Until the deal with Elisabeth Murdoch and the public scrutiny involving the hacking scandal, James had been considered the heir-apparent to Murdoch’s media dynasty.

172. In addition to larding the executive ranks of the Company with his offspring, Murdoch constantly engages in transactions designed to benefit family members. Indeed, the Shine Transaction is part of a pattern of Murdoch using News Corp to expand

his daughter's role at the Company. Elisabeth's first position out of college was as a manager for News Corp-owned FX Networks. Elisabeth Murdoch subsequently worked for her father as an executive at BSkyB.

173. When Elisabeth got married, her husband Matthew Freud's firm, Freud Communications, was given a lucrative contract with News Corp to provide "external support to the press and publicity activities of the Company." The Company paid Freud Communications approximately \$350,000 in fees for fiscal year 2010, and more than \$200,000 in fiscal year 2011.

174. In 2010, Murdoch caused the Company to engage Murdoch's current wife, Wendi Murdoch, to provide "strategic advice" for the development of the Company's former MySpace operation in China. Before becoming Mrs. Murdoch, Wendi's professional experience amounted to a junior position at a News Corp subsidiary.

2. The Board Has Facilitated Transactions Designed to Perpetuate and Increase Murdoch's Control of the Company

175. The Board has also permitted Murdoch to engage in transactions designed to strengthen his control over the Company, even when such transactions cost News Corp millions of dollars.

176. In 2004, John Malone's Liberty Media built up a 19% voting stake in News Corp. At the time, Murdoch controlled just 31% of News Corp's voting shares. In response to Malone's acquisition of News Corp stock, Murdoch imposed a strong anti-takeover poison pill on News Corp to thwart any attempted takeover bid by Liberty Media. The Company subsequently extended the poison pill without seeking shareholder

approval, despite the fact that Murdoch had promised to drop the pill. This triggered a shareholder lawsuit that forced the Company to put the pill to a shareholder vote.

177. Then, in 2006, Murdoch agreed to effectively swap News Corp's 38% stake in DirecTV to Liberty Media in exchange for Liberty Media's stake in News Corp. Given DirecTV's success up to that time, News Corp surrendered a potentially-sizeable premium for its DirecTV stake. Murdoch, however, was willing to forgo the premium from Liberty Media because, by treating the transaction essentially as a buyback and retiring Liberty Media's 188 million shares of News Corp itself, Murdoch increased his control of News Corp to almost 40%. Put another way, to insulate Murdoch from outside challenges to his domination of Company affairs, the Board recommended that shareholders approve a transaction that cost the Company and its shareholders the premium that could have been earned on News Corp's DirecTV shares.

178. In the proxy statement recommending this transaction, the Board was forced to recognize that this transaction would "eliminate[] Liberty as a potential voting counterweight to [Murdoch] in the event that [Murdoch] attempted to pursue a course contrary to the interests of the Company's public stockholders."

179. The DirecTV deal also unwound News Corp's 20-year quest to gain a foothold in the U.S. satellite TV industry – a goal the Company finally achieved only three years earlier. To close the DirecTV deal, Murdoch not only gave up the Company's valuable stake in DirecTV, but also caused News Corp to pay Liberty Media \$550 million in cash plus three television networks. The harm to News Corp cannot be

mistaken or overlooked. DirecTV shares have roughly doubled in value since Murdoch surrendered the Company's stake in order to ensure his control over News Corp.

180. Most recently, in July 2011, the Board sought a means to buttress the Company's waning stock price, knowing that the hacking allegations were causing News Corp's public stockholders to shed their News Corp holdings. Rather than address the deep-rooted problems at the Company head-on through executive and Board-level accountability, the Board approved a huge share buyback. This mechanism for addressing shareholder value concerns has the considerable benefit to Murdoch of potentially increasing his voting power in New Corp and could permit him to obtain absolute voting control without paying anything, much less any control premium, to the Company's current public majority shareholders.

181. On July 12, 2011, News Corp issued a press release announcing that the Board has approved a stock repurchase program totaling \$5 billion (the "Buyback"). Under the Buyback, the Company seeks to acquire \$5 billion of both Class A common stock and Class B common stock from time to time over the next twelve months. The Buyback increased the approximately \$1.8 billion remaining under the Company's then current stock repurchase program to \$5 billion.

182. In approving the Buyback, the Board allowed itself great discretion with respect to the planned purchases, and installed no protection for the Company's public shareholders. Repurchases under the Buyback will be made through open market transactions. The timing of purchases and the class of shares purchased will depend on a

variety of factors, “including market conditions,” but will ultimately be at the discretion of the Board, *i.e.*, Murdoch. Nothing requires Murdoch to sell any shares.

183. Though the Company has both Class A and Class B shares that trade publicly on the NASDAQ, only the Class B shares have annual meeting voting rights. Because Murdoch currently controls roughly 40% of the Company’s outstanding Class B shares, the Buyback provides him the opportunity to obtain absolute voting control at zero cost to him, and at the direct expense of public Class B holders. This scenario will occur if the Company purchases outstanding B shares, thereby reducing the total outstanding Class B and increasing Murdoch’s relative holdings.

184. Currently, there are approximately 798,520,953 Class B shares outstanding, of which Murdoch controls roughly 306,623,480. If the Buyback removes even one quarter of the Class B outstanding – which is altogether possible at current share prices and with \$5 billion of authorized purchases - Murdoch will own more than 50% of the outstanding Class B and have absolute control over all matters to be voted on at News Corp annual meetings. In addition, this control acquisition would be at no cost to Murdoch, and the loss of control by the Company’s public shareholders would come with no premium.

185. While Murdoch currently has *de facto* control over the Company through his ownership interest, domination of the Board and influence over the executive offices, the Board has created the distinct possibility that Murdoch will essentially takeover News Corp by way of the Buyback. Yet, the Board has done nothing to protect the interests of non-Murdoch Class B holders. This blatant breach of loyalty and due care is not only

improper, but also further evidences the Board's continued acquiescence to the will of Murdoch.

186. In addition, the Buyback will likely increase the percentage ownership of Class B stock held by Prince Al-waleed bin Talal ("Prince Al-waleed"), who currently controls roughly 7% of the Company's Class B shares. Prince Al-waleed is not only a business partner of the Murdochs, evidenced, for example, by News Corp's 14% stake in Prince Al-waleed's Rotana media group; he has also professed his loyalty to Murdoch and has embraced Murdoch's vision for the Company.

187. Thus, there is no doubt that Prince Al-waleed will vote in conjunction with Murdoch, further solidifying Murdoch's control of the Company as their respective ownership interests increase with the Buyback. As Murdoch has stated: "[T]he thing about the prince is, he's there for you. When you need the help, he is there." In spite of the likelihood that the Buyback will hand control of News Corp over to Murdoch, whose selfish intentions remain fully backed by his loyal ally, Prince Al-waleed, the Board has implemented no measures to protect the Company's stockholders' interests.

188. Accordingly, the Board including the Audit Committee members breached their fiduciary duties to News Corp in approving the Buyback with no protection for the interest of the Company's public shareholders and no mechanism to prevent an improper takeover of the Company.

3. The Board Permits Murdoch to Further His Personal and Political Agenda

189. The Board has repeatedly allowed Murdoch to use the Company's resources to advance his own political and personal agenda. For example, in 2007, the

Board approved Murdoch's decision to have News Corp acquire Dow Jones for \$5 billion, a whopping **70% premium** to Dow Jones's stock price. Murdoch's true and undisguised purpose was to acquire the Wall Street Journal, which Murdoch coveted because he could use it to further his conservative political agenda on a national scale.

190. As one analyst at BTIG LLC noted in a May 28, 2010 comment on the Dow Jones deal: "You would be hard pressed to find anyone inside News Corp (without the name of Murdoch) who wanted to acquire Dow Jones at the price News Corp was paying, but the deal happened because Murdoch wanted it to." Within eighteen months of that acquisition, News Corp was forced to write-down half of the value of the deal, \$2.8 billion – evidence that the purchase was for Murdoch's personal agenda, not because it was in the best interest of the Company's shareholders.

191. Recently, in furtherance of Murdoch's conservative political agenda, News Corp donated \$1 million each to the Republican Governors Association ("RGA") and the U.S. Chamber of Commerce, raising the ire of shareholders about Murdoch's use of corporate funds to promote partisan attack ads. Murdoch admitted to a *Politico* journalist that he made the donation to the RGA because of his personal friendship with Republican gubernatorial candidate John Kasich. He also acknowledged that he expected the donation to the U.S. Chamber of Commerce to remain secret. Indeed, according to Murdoch: "The RGA [donation], we did [expect to become public, but] [w]e didn't expect the other one." At the 2010 Annual Shareholders' Meeting (held less than a month before the 2010 general election), Murdoch unabashedly confirmed that these donations were made to support his well-known conservative political ideology: "We

believe that it is certainly in the interest of the country and all the shareholders . . . [that] there be a fair amount of change in Washington.”

192. In response to Murdoch’s actions, on July 18, 2011, the Nathan Cummings Foundation sent a letter to Director Defendant Eddington, while copying the entire Board, which criticized News Corp’s oversight and disclosure of corporate political spending, and stated that, “the Company’s \$1 million contribution to the U.S. Chamber of Commerce in 2010 is troubling given the Chamber’s subsequent lobbying to weaken the FCPA, a statute under which some have suggested that News Corporation could potentially face investigation as a result of the phone hacking scandal.”

193. Murdoch’s political initiatives have exposed the Company to other liability, as evidenced by a complaint filed in September 2010 with the Ohio Elections Commission by the Democratic Governors Association (“DGA”). That complaint alleges that News Corp subsidiary Fox News made an illegal in-kind donation to Kasich by running a “chyron” (*i.e.*, either graphics or words at the bottom of a television screen, which is usually unrelated to the current viewing content) featuring Kasich’s website at the same time that the Republican Senate candidate was soliciting donations on “The O’Reilly Factor.”

4. The Board Allows Murdoch to Decide Who Serves

194. Murdoch’s ability to appoint loyalist directors and his ability to remove directors as he sees fit provides further evidence of his domination and control over the Board. “This is a board that qualifies for an ‘F’ in every category,” Nell Minow, founder of the governance firm Corporate Library, said without any hesitation. “It is the ultimate

crony board.” Virtually all of the News Corp directors (thirteen of sixteen, not including Rupert himself) are Murdoch’s family members or close family friends (James, Lachlan, and Dinh), were senior executives at News Corp or a subsidiary at the time they were appointed (DeVoe, Siskind, Eddington, Klein, Carey, Cowley, Knight), were directly picked by Murdoch out of a group of potential board members (Bancroft), or were chosen by Murdoch because they share his political ideology (Aznar, Thornton, and Dinh).

- a. James Murdoch – He was initially appointed to the News Corp Board in 2000, when he was only twenty-eight (28) years old. His work experience consists solely of jobs handed to him by his father. In 2003, his father appointed him to the top job at BSkyB, where he became the youngest ever boss of a FTSE-100 company.
- b. Lachlan Murdoch – He was appointed to the Board in 1996, when he was only twenty-five (25) years old, only two years after he graduated from college. His only job experience was working at several Australian newspapers owned by News Corp. In fact, upon his graduation from college, he was appointed by his father as general manager of Queensland Newspapers, which publishes the Courier-Mail in Brisbane. One year later, his father appointed him as publisher of Australia’s first national paper, *The Australian*.
- c. Kenneth Cowley –Cowley has been on the Board since 1979. He has worked for Murdoch for nearly fifty (50) years. He served as a senior executive of News Limited, a subsidiary of the Company, from 1964 to 1997, including as its Chairman and Chief Executive from 1980 to 1997. He is so close to the family that, for many years he has served as the Chairman of the Murdoch Trust – which holds the Murdoch family assets.
- d. David DeVoe – He was appointed to the Board in 1990 at the same time he became Chief Financial Officer. He is a long-time Murdoch assistant, having worked at the Company in multiple capacities since 1983.
- e. Arthur Siskind – He was appointed to the Board in 1991, and is a longtime Murdoch legal consultant. Upon Siskind’s retirement as General Counsel in 2004, Murdoch stated:

Since 1973, when he first helped News Corporation acquire the San Antonio Express and News, there hasn’t been a single deal or significant corporate development, that didn’t

bear Arthur's firm imprint. *** He's a good and trusted friend. I'm lucky to have had him at my side for all these years

- f. Roderick Eddington – He was appointed to the Board in 1999. He has a long tenure of working with Murdoch. At the time of his appointment to the Board, he was an Executive at two News Corp companies.
- g. Joel Klein – He was appointed to the News Corp board in early 2010, and attained his position at News Corp because of his longstanding personal relationship with Murdoch. In November 2010 he was hired as an Executive Vice President in the Office of the Chairman where he serves as “senior advisor” to Rupert Murdoch. In fact, Murdoch himself donated \$1 million to an advocacy group, Education Reform Now, run by Klein, to finance a continuing campaign to overturn a state law protecting unionized teachers.
- h. Chase Carey – He was appointed to the Board in 2009. Carey had worked with Murdoch for fifteen years prior to joining DirecTV when Murdoch controlled DirecTV and, according the Guardian newspaper, Murdoch personally “lured” Carey back to News Corp to become deputy chairman, president and chief operating officer. In fact, Murdoch was issued a statement noting: “Chase has been one of my closest advisers and friends for years and I am delighted we’ll once again be working together ...”
- i. Jose Maria Aznar – He joined the Board in 2006. He was the former prime minister of Spain and was a personal friend of Murdoch for several years prior to his appointment. Murdoch attended the wedding of Mr. Aznar’s daughter in 2002.
- j. Natalie Bancroft – She joined the Board in 2008. She was only 27 years old at the time of her appointment and had no experience in business. Murdoch personally selected her over other more qualified members of her family to serve as the Bancroft family representative on the Board.
- k. Viet Dinh – He was appointed to the Board in 2004. Dinh and the Murdoch family have a longstanding personal relationship. Dinh has been a friend of Murdoch’s oldest son Lachlan since 2003 and is godfather to Lachlan’s second child.
- l. Andrew Knight – He was appointed a director in 1991, at the time being labeled by Murdoch as Murdoch’s “backstop and successor” at News Corp.

195. Murdoch's control over the Board process is further exemplified by his willingness to eject members of the News Corp board when it suits him. For example, former loyalist Peter Chernin was removed from the News Corp board in 2009. Although he was a key executive in charge of film and television for News Corp, he was unilaterally and suddenly removed by Murdoch. Michael Woolf, the media commentator who had unprecedented access to the Murdoch family in writing "The Man Who Owns The News: Inside the Secret World of Rupert Murdoch," wrote about Chernin's departure: "Number one. Rupert wanted to get rid of Chernin, and I think his only hesitation was the share price. Number two, Rupert is a gutsy guy, and he didn't want Chernin to stand in the way of his children"

196. Murdoch acted similarly with respect to his ex-wife Anna Murdoch Mann. Anna Murdoch's negligible credentials as a junior news reporter did not stop Murdoch from putting her on the Board in 1990. When the couple split nine years later, Murdoch simply kicked her off the Board, telling her that she was "an embarrassment to everyone else on the board."

5. The Board Gives Murdoch Egregiously Excessive Compensation

197. Murdoch's personal compensation is additional evidence of his control of the News Corp Board. In the last four fiscal years alone, he has made more than \$108 million for serving as the Company's Chairman and CEO. He receives an extraordinarily-high annual base salary of \$8.1 million. He also receives annual cash bonuses and discretionary grants of time-based restricted stock units. In 2011 he received a \$12.5 million bonus.

198. During the same four-year period that Murdoch reaped this excessive compensation, News Corp's stock had a negative return and underperformed relative to the S&P 500. News Corp's stock also underperformed relative to the stock of its peers – such as Viacom, Time Warner and Disney – by a large margin. At the same time, Murdoch's base salary dwarfed those received by the chief executive officers of News Corp's peers. Further evidencing his excessive compensation, Murdoch was ranked 178 out of 189 in Forbes's April 28, 2010 "Bang For The Buck" report, which evaluated chief executive officers' performance versus pay.

6. Other News Corp Insiders Are Also Excessively Compensated

199. Other News Corp executives are also grossly overpaid, ensuring their loyalty to Murdoch and his personal initiatives. In 2010, national proxy advisory firm Glass Lewis & Co. ("Glass Lewis") gave the Company an "F" grade for its executive compensation using a proprietary pay-for-performance model. In fact, the Company has received a grade of "F" or "D" from Glass Lewis on executive compensation in each of the last six years. News Corp's continued practice of excessive executive pay and the large disconnect between pay and performance suggest that News Corp executives are being compensated for loyalty to Murdoch more so than they are for achievement or ability.

200. The overall excessive executive compensation is also a product of Murdoch over-compensating members of his family who serve in executive capacities with the Company, such as his son James, who has received more than \$30 million in pay for his service to News Corp over the last three fiscal years. Under the Board's supine

approach to dealing with Murdoch, the Company pays more than its peers, but performs worse.

7. The Board's Misconduct Results in the Murdoch Discount

201. The lack of Board oversight or constraint on Murdoch's whims is so well understood in the market that News Corp is subject to the "Murdoch discount." In a February 7, 2009 article, the Financial Times noted: "In good times, investors in News Corp fret about 'the Murdoch discount' – the worry hanging over the stock that at *any moment its dominating chairman and chief executive might decide to spend shareholders' money on a large investment with uncertain payback.*" (Emphasis added.)

202. More recently, a Forbes article noted that: "One reason [for the Murdoch discount] is that News Corp represents the judgments and whims of a single individual: Murdoch, who wields 38% of its voting shares." Likewise, an analyst with Needham & Co. stated, "[y]ou buy the stock at a discount because of that ... Where his interests collide with yours, you are subject to his."

203. Other analysts view News Corp similarly recognized the Murdoch discount:

- Evercore Partners Inc., August 2, 2010: "Given the Murdoch family dominance, the dual class structure, and the fact that the *Murdoch interests may not be totally aligned with those of public shareholders*, we use a higher 30% discount in calculating our public market valuation." (Emphasis added.)
- Credit Suisse Group, November 3, 2010: "We are maintaining our Neutral Rating on News Corp., which is trading at ~6 EV/EBITDA on our FY11 estimate, a -27% discount to its peers, relative to its historical 10%-50% discount."

204. Likewise, a representative with Yacktman Asset Management Co., which is the eighth largest holder of News Corp's class A shares as of March 31, 2011, remarked that while Murdoch is in charge of the Company it may remain undervalued compared to its rivals. "Mr. Murdoch is going to do what Mr. Murdoch chooses to do, unless he is forced to do something else," said Yacktman. "If he stepped down, ... probably the stock price would go up, because there's a Murdoch discount."

205. An analyst with Davenport & Co. explained this phenomenon as follows: "There's just sort of this generic Murdoch discount, which encompasses the concern that he will make decisions that are not consistent with other shareholder interests ... The sum of the parts on News Corp. is huge compared with where the stock trades.... Wall Street thinks the sum of its parts are worth as much as \$80 billion, not the \$41 billion [that News Corp is valued at] now." In a similar analysis, analysts at Gabelli & Co. and Barclays Plc applied market principles to each of News Corp's units to estimate that the Company may be worth up to \$79 billion, as compared to the Company's current \$40 billion market capitalization. Stated differently, the impairment of News Corp's market capitalization due to the Murdoch discount serves as a whopping 98% tax on the Company's shareholders.

206. Moreover, due to Murdoch's control over the Board's decisions to acquire and sell certain assets, News Corp owns assets that are not generating sufficient profit to justify their position in the Company's portfolio. In this regard, once Murdoch decides he wants to buy an asset, history dictates that he is reluctant to let it go, no matter how much money News Corp loses. Murdoch's penchant for newspapers, for example, has

contributed to a 28% decline in operating income in the Company's newspapers and information services unit over the past five years. In fact, News Corp had to write down the value of its \$5.1 billion acquisition of Dow Jones & Company – a Murdoch driven purchase – in May 2007 by \$2.8 billion in the second quarter of fiscal 2009. Similarly, the Company sold MySpace – another Murdoch driven purchase – for \$35 million, a staggering \$545 million less than what the Company paid for it six years ago.

207. In a July 2011 analysis, Nomura classified News Corp's U.K. and U.S. newspaper assets as "toxic." According to this analyst, "[g]iven the unknown of what could still come out from any additional investigations. . . , we will take an overly conservative approach and assign a zero multiple valuation to the newspaper segment. However, we are not saying that if News Corp decided to sell or spin these assets off that they are worthless, but rather believe that under News Corp ownership they will be given little value."

208. According to a July 21, 2011 Financial Times article, securities analysts believe that News Corp's share price should be approximately \$21 per share, rather than below \$17 per share – the price that the stock has consistently traded at since the scandal broke – given that News Corp has run a successful business that generates more than \$2 billion in cash annually. Instead, however, the Murdoch discount has created an overhang on the Company's stock, "reflecting investor anxiety about unpredictable uses of their capital [by Murdoch]. After the MySpace and Dow Jones deals, the gap between News Corp's theoretical worth and its market valuation was widening even before the phone hacking scandal" came to light, according to the Financial Times. In fact, Forbes

reported that, “over the last decade News Corp. has suffered a 15% decline in its stock market value even as the Dow Jones Industrials Average has risen 21%. And with EVA [economic value added] of negative \$9.5 billion in 2009 and negative \$1.1 billion in 2010, News Corp. is earning billions less than its cost of capital.”

209. Because of the Murdoch discount, News Corp trades at 12.7 times its reported profit, versus an average of 16.5 times for media companies in the S&P 500, according to Bloomberg. Time Warner, for example, has a multiple of 14.7, while Walt Disney trades at 17.1 times profit. Further, News Corp trades at a mere five times estimates of its EBITDA for the fiscal year 2012, according to Credit Suisse analysts, which is 40% less than Time Warner and Walt Disney – double the typical gap seen since 2002. An analyst with Lazard Capital Markets explained the discrepancy as follows: “You’ve got a lot of headlines about News Corp. that you just don’t see about other media companies ... You’ve got phone hacks, purchases of companies run by relatives and big acquisitions of newspaper companies. Investors don’t necessarily like Murdoch spending on these things.” The results speak for themselves.

210. If Delaware law is applied to restrain Murdoch’s abuse of his corporate kingdom, all News Corp shareholders will benefit, and the stock price will reflect an improvement in the protection of its minority investors.

8. Murdoch and the Board Reject Shareholders’ Calls for Corporate Governance Reforms

211. Murdoch’s mismanagement of News Corp, as detailed herein, has prompted investors to call for a change in Murdoch’s role at the Company as well as significant corporate governance reform. For years, many experts have been outspoken

regarding News Corp's pervasive corporate governance problems. For example, Charles Elson, Director of the University of Delaware's John L. Weinberg Center for Corporate Governance, said a structure like News Corp's "creates a culture with no accountability."

212. GovernanceMetrics International Inc. ("GMI"), an independent research firm that grades companies' corporate governance, has given News Corp an "F" grade in each of the past six years. Only thirty-six of the 3,000 public companies that GMI tracks carry an F rating. According to GMI's co-founder, Nell Minow, that grade was only given to News Corp "because there is no lower grade" possible. Further, according to Paul Hodgson, GMI's managing director and chief communications office, "[w]hile shareholders are free to suffer from a drop in the stock price because of the scandal, they really cannot do anything but sell the stock. They have no control over the board or the CEO." In addition, Hodgson stated that "If you wanted to make up the sort of company that will fail in the future, this is the sort of board you'd put together."

213. The Interfaith Center on Corporate Responsibility ("ICCR"), which represents approximately 300 organizations with assets of more than \$100 billion, is pushing for News Corp to split the roles of chairman and chief executive officer, which are currently held by Murdoch. This sentiment was echoed in an article by Fortune columnist Geoff Colvin who commented that "News Corp's variety of lousy governance is simple – one man exerts control wildly out of proportion to his stake in the business." Apart from splitting Murdoch's role, the ICCR intends to propose other as-yet unidentified corporate governance changes. This initiative is not isolated. A "significant number" of investors in the Company are now calling for change. All of these calls for

reform have, for years, been ignored by Murdoch and the Board. Indeed, in the Company's 2011 Proxy Statement, the Board rejected separating the roles of Chairman and CEO. In doing so, the Board recognized that Murdoch sets the tone for the corporate culture of News Corp, noting that he is the person most familiar with the Company's businesses.

214. Most recently, the California Public Employees' Retirement System ("CalPERS"), the largest public-pension fund in the U.S. and a large institutional investor, stepped up pressure for a drastic overhaul of News Corp's corporate governance program. In particular, CalPERS challenged the unusual dual stock structure of News Corp, which effectively gives the Murdoch family voting control over the Company. "News Corp does not have one share one vote. This is a corruption of the governance system. Power should reflect capital at risk. CalPERS sees the voting structure in a company as critical. The situation is very serious and we're considering our options. We don't intend to be spectators – we're owners," said a CalPERS representative. According to the representative, "[d]ual-class voting is one way to pervert the alignment of ownership and control." The Murdoch family currently owns just 12% of the company, yet the family's Class B shares give Murdoch nearly 40% voting power. The Company's 1.8 billion Class A shares, by contrast, account for approximately 70% of the Company's market capitalization, but have no voting rights whatsoever. CalPERS is calling for News Corp to eliminate its dual-class structure and conform to the principle of "one-share one-vote."

215. Similarly, the Australian Council of Superannuation Investors (“ACSI”) has also joined the call for wide-ranging governance changes at News Corp. ACSI chief executive Anne Byrne stated that, “[News Corp] doesn’t have an appropriate board, and it is a board that never challenges its CEO and its CEO is its chairman.”

D. THE SHINE TRANSACTION – MORE OF THE SAME ABUSE

1. Elisabeth Murdoch Leaves News Corp To Start Shine

216. As was the case with Murdoch’s sons James and Lachlan, Murdoch gave Elisabeth Murdoch positions at News Corp when she began her career. In the early 1990s, she started at FX Networks, after which she worked at BSkyB, the satellite broadcaster in which News Corp has a controlling minority stake. In 2000, she left her father’s employ after feuding with her then-boss at BSkyB, Samuel Chisholm.

217. Elisabeth Murdoch formed Shine Group Ltd., a television and movie production company, in 2001. Murdoch helped ensure that Shine would not immediately fail by causing BSkyB to sign a deal guaranteeing to buy an agreed amount of Shine programming for two years. Shine then grew by aggressively acquiring other companies. Before the Shine Transaction closed, Elisabeth owned 53% of Shine, Sony Pictures Entertainment (“Sony”) owned 20%, BSkyB owned 13% and certain minority shareholders owned the rest.

2. Murdoch Decides to Bring His Daughter Back to the Family Business

218. Murdoch recently turned eighty. With his inevitable departure from News Corp looming, Murdoch has turned his attention to devising and executing a succession

plan ensuring that News Corp will remain a family business, notwithstanding that a majority of its shares are in public investor hands.

219. According to a source close to Murdoch, the patriarch has talked in the past about a scenario in which Elisabeth would oversee News Corp's entertainment assets; James would continue as head of News Corp's European and Asian assets, with a focus on its satellite and distribution operations; and Lachlan would be brought back to lead its newspaper assets. Specifically, a former News Corp insider stated, "Rupert would love to have Lachlan back running newspapers." Under that plan, Carey would remain Murdoch's top lieutenant until Murdoch was ready to name a successor from within his family.

220. Murdoch has explicitly acknowledged his dynastic ambitions. In a 2009 interview with Sky News, Murdoch said he is "sure" one of his children will emerge to succeed him: "Every parent likes to see that." Andrew Neil, who worked for Murdoch for a dozen years, has stated "Rupert really did . . . feel that he was creating a dynasty." According to sources inside News Corp, James, Elisabeth, and Lachlan, guided by their patriarch, "are working together as a group on a master plan."

221. When Murdoch's then second-in-command, Peter Chernin, was leaving in February 2009, Murdoch wanted his daughter to join the Board, but she rebuffed him. Murdoch devised other ways to keep Elisabeth involved in the family business.

222. Over the last year, Elisabeth Murdoch has been a non-voting observer of the Board, which voluntarily allows her to sit in on Board meetings. No other third party not otherwise affiliated with News Corp enjoys this privilege from the Board. That

shadow role for Elisabeth, however, was not enough for Murdoch. According to industry sources, Murdoch stated that he would purchase Elisabeth's business in order to get her back into the family fold. According to Michael Wolff, author of "The Man Who Owns The News: Inside The Secret World of Rupert Murdoch" and the editorial director of AdWeek Media, "Murdoch told me if he had to buy his daughter's company to get her to come back to News Corp. he certainly would...." In a 2009 interview with Sky News, Murdoch said he is "sure" one of his children will emerge to succeed him: "Every parent likes to see that."

223. On February 21, 2011, Murdoch announced his latest move to shore up that dynasty when News Corp issued a press release announcing that News Corp and Shine had reached an agreement in principle for News Corp to acquire 100% of Shine for roughly \$670 million. The announcement was unexpected and came with limited disclosure – specifics about Shine's value were never disclosed, and it was widely speculated that the price was far beyond fair value for the fledgling media company. Most troublesome for News Corp shareholders, however, was the concurrent announcement that the News Corp Board would be expanded and Elisabeth would be appointed to the newly created seat.

224. Considering the size of the Shine Transaction and Elisabeth's questionable credentials, her Board appointment was a transparent attempt by Murdoch to entrench his family at the helm of the Company and further enrich his daughter while bolstering his succession plan.

225. On April 5, 2011, the Company announced that the Shine Transaction had closed. Murdoch had forced News Corp to pay \$615 million (and assume net liabilities) for his daughter's business. News Corp's quarterly report on Form 10-Q for the quarter ended March 31, 2011 broke down the purchase price as follows:

The total consideration for this acquisition included (i) approximately \$480 million for the acquisition of the equity, of which approximately \$60 million has been set aside in escrow to satisfy any indemnification obligations, (ii) the repayment of Shine Group's outstanding debt of approximately \$135 million and (iii) net liabilities assumed. Elisabeth Murdoch, Chairman and Chief Executive Officer of Shine Group, and daughter of Mr. K. R. Murdoch and sister of Messrs. Lachlan and James Murdoch, received approximately \$214 million in cash at closing in consideration for her majority ownership interest in Shine Group, and is entitled to her proportionate share of amounts that are released from escrow.

In a February 21, 2011 press release announcing the Shine Transaction, Murdoch stated: "I expect Liz Murdoch to join the board of News Corporation on completion of this transaction." Murdoch, for his part, would have had the satisfaction of having planted yet another family member in the senior hierarchy of News Corp and on its Board, and of further solidifying his control over the Board and the Company.

226. One source inside Shine explained that the Shine Transaction "is the first step towards [Murdoch] setting the kids in place at News Corp." That same source explained that, from the outset, the Shine Transaction was set to close quickly, shielding it from searching, rigorous scrutiny. "This deal is going to happen and it is going to happen fast."

227. The Shine Transaction failed to meet the exacting standards of entire fairness that applied under the circumstances. Murdoch appropriated the excess value

paid for Shine for his own ends, to the exclusion of, and detriment to, News Corp and its public shareholders.

228. In an article for Fortune magazine, Allan Sloan wrote, “all-in-the-family deal-making just isn’t right for a public company.” Similarly, in a March 4, 2011 article, Daily Variety observed, “Wall Street was not quite as enamored with News Corp.’s \$675 million buyout of production company Shine Group, which promises to bring News Corp chairman Rupert Murdoch’s daughter and Shine topper Elisabeth back into the family business. Critics said the deal smacked of family favoritism and was not shareholder friendly.”

229. Not only were the valuation and the circumstances of the Shine Transaction indefensible, but so was Elisabeth’s announced Board appointment. Murdoch’s transparent use of corporate resources to execute his succession plan met with such widespread criticism that he was forced to abandon this critical element of the deal. As initially alleged in this action, the appointment served no rational business purpose, was a blatant breach of the Board’s duty of loyalty, and acted to dilute the representation of the duly-elected Board members. These undeniable allegations caused the Murdochs to relent, and on August 5, 2011, the Board recognized “it would be inappropriate” for Elisabeth to join the Board, something shareholders had known all along.

3. The Shine Transaction Triggers the Entire Fairness Doctrine

230. In addition to Murdoch’s non-pecuniary interest in the Shine Transaction, Murdoch clearly had a direct financial interest in the deal *vis-à-vis* his daughter’s ownership of Shine. Murdoch’s use of his influence over News Corp Board to cause the

Company to overpay for Shine is improper simply because it allowed him to divert corporate funds to a close family member – a clear case of self-dealing.

231. Murdoch stood on both sides of the Shine Transaction because Elisabeth Murdoch controlled Shine, and she, as Murdoch's daughter, is a related party. Because he stood on both sides of the transaction, Murdoch's use of his power as both controlling shareholder and director to effectuate the Shine Transaction on terms not entirely fair to News Corp constitutes a breach of his duty of loyalty to the corporation.

232. Even if Murdoch did not stand on both sides of the Shine Transaction in the classic sense, he had a personal interest in the Shine Transaction which was not shared with News Corp's public stockholders. Murdoch has gone, and is going, to great lengths to ensure that his children have a place at the head of his empire. He has secured employment on their behalf and set up a lavish trust in their favor.

4. The Shine Transaction Was Not Entirely Fair

a. The Board Overvalued Shine

233. While, as consequence of the Shine Transaction, Murdoch is now one step closer to gratifying his imperial ambitions, and his daughter has pocketed roughly \$250 million from News Corp's coffers, News Corp has significantly overpaid to consummate a Shine Transaction that adds little value to the Company.

234. Comparing Shine to its peers demonstrates that the Company overpaid to buy Murdoch his daughter's company. While the Company has impeded any such comparison by not disclosing current financial information for Shine, analysis of available information shows that the purchase price is unreasonably high. For example,

Shine's EBITDA for 2009 – the last year for which Shine's audited financial results are available – was approximately £28.40 million, putting the deal's enterprise value/EBITDA multiple at 13.10x (based on an enterprise value for the deal of £372 million). In contrast, as set forth in the below chart, the mean enterprise value/EBITDA multiple of Shine's peer companies is only 5.91x and the median multiple is only 5.56x. Shine and News Corp have not released Shine's 2010 financial results, but even accepting reports of Shine's projected 2010 results, the production company's estimated 2010 EBITDA of approximately £35 million results in an enterprise value/EBITDA multiple of nearly 10.60x, about twice that of its peers:

**Summary of Shine Group Ltd. Public Comparables:
Enterprise Value Multiples vs. Shine Transaction Multiples**

Company	As Of Date	LTM Net Sales (millions)	EBITDA Margin	EBIT Margin	Enterprise Value (millions)	LTM EBITDA (millions)	LTM EBIT (millions)	Enterprise Value/EBITDA Multiple	Enterprise Value/EBIT Multiple
Pinewood Shepperton PLC	12/31/2010	£43.41	29.56%	20.91%	£116.9	£12.83	£9.08	9.11x	12.88x
DQ Entertainment	9/30/2010	\$26.40	41.07%	25.25%	\$47.89	\$10.84	\$6.66	4.42x	7.19x
STV Group PLC	6/30/2010	£104.8	16.13%	13.74%	£110.85	£16.90	£14.40	6.56x	7.70x
Eros International PLC	9/30/2010	\$103.5	76.71%	36.73%	\$140.46	\$79.43	\$38.04	4.29x	8.95x
								Mean	5.91x
								Median	5.56x

Shine Group Ltd. Deal Multiples

Enterprise Value of Shine Transaction (mlns)	£372.00		
2009 Shine Group EBITDA (mlns)	£28.40	13.10x	
2010 Shine Group EBITDA (mlns) (projected)	£35.00	10.63x	
2009 Shine Group EBIT (mlns)	£15.46		24.07x

235. Moreover, a comparison of the multiples implicit in the Shine deal to multiples of companies comparable to News Corp provides still further evidence that the Company overpaid for Shine. Examining the trailing twelve months (“TTM”) enterprise value of News Corp’s peers divided by their EBIT and EBITDA results in averages for News Corp’s peers of 8.12x (EBITDA) and 15.86x (EBIT). The value of Shine based on the Shine Transaction is much greater: 13.1x (2009 EBITDA) and 24.07x (2009 EBIT). Even if Shine’s projected results for 2010 were considered, it would still yield a vastly higher multiple of 10.63x EBITDA.

236. Analysts have been resoundingly critical of the Shine Transaction. For example, an analyst at The Nomura Group, warned that the Shine Transaction would result in significant fallout:

We can’t help but think that News Corp’s acquisition of a Murdoch family-owned company will be seen by some as more evidence that the company is not as shareholder friendly as its peers. In fact, as happened post News Corp’s Dow Jones acquisition (albeit at a much higher purchase price), we think this deal will likely return News Corp to the penalty box and restrain its multiple expansion for the near future. . . . News Corp. could be shunned by some institutional investors who see more shareholder-friendly actions and clear capital return strategies at other media companies.”

237. Missing from the announcement of the Shine Transaction was any statement of how News Corp would benefit from owning Shine. Neither the February 21, 2011, press release nor the April 5, 2011, press release contained any suggestion of any synergies to the Company by owning Shine. Ultimately, the Shine Transaction provided no material benefits to the Company, only a windfall to Elisabeth and Murdoch.

5. The Shine Transaction Was The Product Of An Unfair Process

a. The Audit Committee Was Incapable Of Independently Evaluating The Shine Transaction

238. Murdoch and the Board gave no thought to appointing a special committee of truly independent outside directors to evaluate the Shine Transaction. As shown below, no independent committee of the Board to review the Shine Transaction could be formed because there is not a single Individual Defendant who is independent of Murdoch and has shown the willingness to oppose Murdoch's overwhelming control over News Corp.

239. The Shine Transaction was evaluated and allegedly approved by the Board's Audit Committee, consisting of Eddington, who serves as Chairman, and Board members Barnes, Knight and Perkins. Incredibly, Eddington did not disqualify himself despite the clear conflict of interest in the consummation of the Shine Transaction given his position with J.P. Morgan and J.P. Morgan's involvement as Shine's financial advisor on the deal. To take a hard line to ensure News Corp paid the lowest price to acquire Shine or to insist that News Corp explore alternatives to acquiring Shine would not only leave Eddington in Murdoch's crosshairs, it would also leave Eddington at odds with his other employer, J.P. Morgan.

240. The Audit Committee's nominal approval of the Shine Transaction is a mirage that Defendants erected in the wake of this litigation to lend a patently interested and unfair deal some semblance of legitimacy. In truth, by the time the Board decided to delegate sole authority for approval of the Shine Transaction to the Audit Committee, the Company had already decided that it would proceed with the Shine Transaction, and

Plaintiffs had filed this action. As a defensive reaction to Plaintiffs' filing, the Board sent the Shine Transaction off to the Audit Committee for rubber-stamping. In a matter of weeks, the Audit Committee, a group of part-time directors, was supposed to select a financial adviser, retain independent counsel, review the terms of the Shine Transaction, perform independent and thorough due diligence, evaluate all relevant conflicts, and digest the implications of a Shine Transaction that had already been agreed to and announced. Indeed, as discussed, one Shine insider predicted in January, before the agreement was announced, "This deal is going to happen and it is going to happen fast."

241. Ever since the Shine Transaction was announced, News Corp consistently created the impression that the Audit Committee was going to act only in an advisory capacity with respect to the Shine Transaction. According to a press release issued by the Company on February 22, 2011, the Shine Transaction was to receive full consideration and approval by both the *entire News Corp Board* and the Audit Committee. The release provided that the Shine Transaction "will be subject to customary closing conditions including approval by the audit committee *and the full board of News Corporation*, receipt of an independent fairness opinion, and Shine Group board approval" (emphasis added). This arrangement, full Board approval with the Audit Committee acting in an advisory (rather than executive) capacity is consistent with the Audit Committee's charter, which provides that the committee is responsible for, among other things, "*assist[ing] the board* in its oversight of . . . the review, approval and ratification of transactions with related parties."

242. When the Shine Transaction closed on April 5, 2011, the Company issued another press release, which indicated that the chosen corporate governance and approval mechanism had shifted at some point since the time the deal itself had been announced. According to the April 5 release, “[t]he transaction was approved by the Audit Committee of the News Corporation Board of Directors.” Though Defendants did not explicitly articulate their change in plans, much less defend their post-hoc decision, the implication is clear enough. The reason for the Board’s wholesale delegation of authority to approve the transaction is obvious; after all, the only event to transpire between the announcement of the deal and its closing was the filing of this action on March 16, 2011.

243. In fact, there is reason to believe that the Board did not decide to delegate the authority to approve the Shine Transaction to the Audit Committee until after March 18, 2011. On that date the Los Angeles Times ran an article about this lawsuit under the headline “Bank sues News Corp. over purchase of Shine Group.” The author of the article quoted News Corp’s reaction to the lawsuit: “The media company has said that the board’s audit committee and an outside firm *will evaluate the purchase*.” Had the Board decided by this time to remove itself entirely from the Shine Transaction, and delegate full authority to *approve* the Shine Transaction, surely the Company’s spokesperson, having every incentive to bolster the integrity of management’s approval process, would have said so. The fact that, as of March 18, 2011, the Company’s position was that the Audit Committee would “evaluate” the Shine Transaction, rather than act as the final arbiter of its fate, is evidence that the Board did not actually delegate that authority prior to March 18.

244. Additionally, though the Audit Committee was tasked with selecting an independent financial advisor, it simply accepted the choice thrust upon it by Murdoch and the full Board: Centerview Partners. Centerview Partners was no stranger to News Corp, having previously advised the Company on the massive Dow Jones acquisition. As a newcomer to Wall Street still in the process of compiling a book of business, Centerview Partners has a strong interest in preserving its relationship with News Corp (and the prospect of future fees), and, at the very least, would not risk its nascent reputation on the Street by torpedoing one of Murdoch's pet projects.

245. Given that the sole impetus for delegating the authority to approve the Shine Transaction to the Audit Committee was, ostensibly, to facilitate diligent, meaningful, and – above all – independent review of the deal, the committee's retention of Centerview Partners is inexplicable. In hiring Centerview as its advisor, the Audit Committee shirked the duties it had been delegated by the Board and compromised whatever semblance of independence its approval was supposed to afford the Shine Transaction.

246. Indeed, while the Company's April 5 press release announcing the deal's closing referred to Centerview as an "independent investment bank," that characterization, for the reasons stated above is misleading.

b. News Corp Failed To Make Public Any Opinion Made By An Advisor In Connection With The Shine Transaction Or To Consider Alternatives To Shine

247. There is no real evidence that the Board, or anyone else at News Corp meaningfully analyzed whether this was an appropriate deal or an appropriate price.

Although News Corp disclosed that the Audit Committee retained Centerview Partners to evaluate the price to be paid for Shine (since, of course, no alternative acquisitions were considered), no opinion saying the price actually paid was fair has been disclosed by the Company. The only other entity to have an outside advisor was Shine, which retained J.P Morgan, whose head of operations in Australia and New Zealand is none other than Eddington, the Audit Committee Chairman.

248. To the extent the Board did any evaluation whatsoever of the Shine Transaction, it never exercised any initiative to explore meaningful alternatives to Shine or even considered whether News Corp should buy a television production company at all. If News Corp wanted to buy a production company, the Board should have canvassed the scores of production companies that exist to find the best fit. It defies logic that of all those companies, Murdoch's daughter's company was coincidentally chosen after such a canvass of the market.

E. THE BOARD FAILED TO FOLLOW THE COMPANY'S OWN WRITTEN POLICIES

249. The Board has adopted a Statement of Corporate Governance that sets forth the Company's corporate governance guidelines and practices. It states that the Board is responsible for the corporate governance of the Company and oversees management with a focus on enhancing the interests of stockholders. It further provides that the Standards of Business Conduct are *to be followed by all Directors*, officers and employees of the Company, its subsidiaries and divisions and that *such intention is communicated to each Director*.

250. To promote further ethical and responsible decision-making, the Board established a Code of Ethics specifically for Murdoch, among other executive officers, that is included in the Standards of Business Conduct.

251. The Board also adopted the Standards of Business Conduct which confirms the Company's policy to conduct its affairs in compliance with all applicable laws and regulations and observe the highest standards of business ethics. It provides that a conflict of interest arises when personal interests or divided loyalties interfere with the Individual Directors' ability to make sound, objective business decisions on behalf of the Company. In that regard it states: "We are committed to a work force that is clearly and obviously motivated by the best business interests of our Company."

252. It also provides that "The Company's reputation is one of our most valuable assets. Therefore, we are always careful to be sure that we don't do anything that would harm that reputation, or that would otherwise bring the Company into disrepute."

253. Company policy further states, "We obtain competitive information legally. We do not obtain information about competitors through theft, blackmail, wiretapping, trespassing, or other methods prohibited by law." While this document attempts to paint News Corp as an ethical company, the actions described herein are in direct conflict with these principles.

DERIVATIVE ALLEGATIONS

254. Plaintiffs bring this action derivatively to redress injuries suffered by the Company as a direct result of the breaches of fiduciary duties by the Individual Defendants.

255. Plaintiffs have owned News Corp stock continuously during the time of the wrongful course of conduct by the Individual Defendants alleged herein and continue to hold News Corp stock.

256. Plaintiffs will adequately and fairly represent the interests of News Corp and its shareholders in enforcing and prosecuting its rights and have retained counsel competent and experienced in shareholder derivative litigation.

DEMAND ON THE NEWS CORP BOARD IS EXCUSED AS FUTILE

257. Plaintiffs have not made a demand on the Board to bring suit asserting the claims set forth herein because pre-suit demand was excused as a matter of law.

258. As of the date of the filing of this complaint, the News Corp Board consisted of the following sixteen Directors: Defendants Rupert Murdoch, James R. Murdoch, Lachlan K. Murdoch, Chase Carey, David F. DeVoe, Joel Klein, Arthur M. Siskind, Roderick I. Eddington, Andrew S.B. Knight, Thomas J. Perkins, Peter Barnes, José María Aznar, Natalie Bancroft, Kenneth E. Cowley, Viet Dinh, and John L. Thornton.

259. As described below, nine are clearly not independent as they are Murdoch family members and/or are employees of News Corp or have other conflicts that render

them incapable of acting fairly and impartially with respect to issues involving members of the Murdoch family.

260. Moreover, all of them have, over time, shown either unwillingness or inability to challenge Rupert Murdoch's control over the Company. In addition, all of the Directors receive significant financial compensation and benefits from their positions on the Board.

261. First, demand is excused with respect to the claims relating to the Board's knowing or reckless disregard for their fiduciary duties in the context of News Corp's systemic disregard of applicable legal obligations, resulting in the hacking and bribery scandals. Based on the particularized allegations set forth above, each of the Individual Defendants deliberately disregarded clear red flags and warning signs of News Corp's illegal conduct. Had they been heeded and addressed, the Board could not have helped but prevent systemic wrongdoing within the Company, including by Murdoch and his family. As such, a majority of the Board faces a substantial likelihood of liability on the underlying claims for breaching their fiduciary duties to the Company and its shareholders. Thus, pre-suit demand is excused as a matter of law.

262. Second, demand is excused with respect to the Shine Transaction because the acquisition of Shine from Murdoch's daughter was plainly an interested transaction and, as alleged above, was not entirely fair to the Company – either in terms of price or process. Accordingly, the Shine Transaction cannot be deemed a product of the valid exercise of business judgment, and demand is excused as a matter of law.

263. Finally, a majority of the Board suffers from conflicts of interests and divided loyalties that precluded them from exercising independent business judgment, and their course of conduct demonstrates a history of blind allegiance to the whims and instructions of Rupert Murdoch. Murdoch's interests, including his use of News Corp to pursue his personal and political agendas and his desire to perpetuate family control of the Company, often clash with the public shareholders' interest in maximizing the long-term value of News Corp. And as demonstrated time and again, News Corp's Board allows Murdoch's interests to take precedence over those of the shareholders every time.

264. The Board lacks structural independence in that at least eight out of the sixteen existing directors are Murdoch family members (Rupert, James, and Lachlan), current News Corp executives (Carey, DeVoe, Siskind, and Klein), or work for Murdoch and his family (Cowley). Cowley has a fiduciary relationship with Murdoch and Murdoch's family as head of the Murdoch Family Trust. His duties to look out for the best interests of Murdoch and his family members as head of the trust conflict with his duties to News Corp shareholders. Thus, at least eight members of the News Corp Board (including Murdoch) are beholden to Murdoch. Another Board member, Dinh, is such a close friend of the Murdoch family that there is reasonable doubt as to his independence as well. As such demand on the Board would be futile with respect to each of the claims set forth in this complaint. and is excused as a matter of law.

265. Moreover, the Board lacks factual independence as well. As described above, there are at least eight members of the Board, including Murdoch himself, that have ties to Murdoch that preclude them from exercising judgment independent of

Murdoch. Another Board member, Dinh, is such a close friend of the Murdoch family that there is reasonable doubt as to his independence as well. Plaintiffs need only raise a reasonable doubt that half of the Board members – in this case, eight – could not impartially consider a demand for demand to be excused as a matter of law. As set forth in more detail below, at least nine Board members – and likely more – lack sufficient independence from Murdoch that demand is excused as a matter of law.

266. Moreover, specifically with respect to the Shine transaction, Eddington’s employer, J.P. Morgan, represented Shine in connection with the News Corp acquisition. As such, Eddington stood on both sides of the Shine Transaction, and therefore there exists a reasonable doubt as to whether he could impartially consider a demand. Likewise, because the Board members have demonstrated a lack of independence from Murdoch, the fact that the “Audit Committee” supposedly blessed the Shine Transaction does not somehow cloak the flawed and unfair acquisition with the protection of the business judgment rule. Entire fairness still applies. For these additional reasons, demand is excused as a matter of law for the claims arising out of the Shine Transaction.

A. DEMAND IS EXCUSED BECAUSE THE BOARD ABDICATED ITS DUTY TO ENSURE THE PROPRIETY OF NEWS CORP’S BUSINESS PRACTICES AND HAS DEMONSTRATED THAT IT IS BEHOLDEN TO MURDOCH

267. Plaintiffs did not make a demand on the News Corp Board before instituting this action because the wrongful acts complained of herein evidence a pattern of conduct showing a wholesale abandonment of their fiduciary duties, including lack of due care and oversight. Those acts include:

- a. approving the Shine Transaction involving a family member of the Chairman and controlling shareholder at an unfair price and with no determination as to the necessity of the transaction;
- b. allowing Murdoch to operate News Corp for the benefit of Murdoch, his family and his friends, by among other things: (i) condoning blatant nepotism in conducting the Company's business; (ii) approving actions designed to perpetuate Murdoch's control over News Corp; (iii) allowing Murdoch to pick and choose who is on and who is off the Board; (iv) permitting actions driven by Murdoch's personal or political agenda; and (v) accepting excessive compensation for Murdoch; and
- c. knowingly and in bad faith permitting woefully inadequate controls over the Company's policies and practices such that it has become embroiled in numerous instances of illegal or improper behavior, including using blatantly illegal and unethical tactics to drive competitors out of business, and permitting the widespread, blatantly-illegal phone hacking of thousands of telephones in the United Kingdom including members of the royal family, politicians, actors and crime victims and their relatives, the result of which has been the shuttering of the largest tabloid in the world.

268. These acts, and the other improper acts set forth herein, which demonstrate a pattern of misconduct, were not, nor could they have been, the product of a valid or good faith exercise of business judgment.

269. As detailed above, the Board members were directly involved in the misconduct challenged in this action, by virtue of their respective positions on the Board's various committees, or they completely abdicated their responsibility to oversee the Company's operations and let management run roughshod over the Company for their personal gain, causing the Company to engage in illegal practices and improper conduct that have harmed the Company and impaired the Company's shareholder value. Defendants' conduct lacked any legitimate business purpose and was not a product of a valid exercise of business judgment. Moreover, the Board consciously disregarded the red flags that indicated widespread misconduct was occurring at News International,

including: (a) the computer hacking and other illegal conduct by News Corp's U.S. subsidiaries NAM and NDS beginning in the late 1990s; (b) the September 2002 Guardian article about Rees, who frequently worked with News of the World; (c) the April 2005 ICO report naming News of the World as one of the prime customers of Whittamore and tying 23 News of the World journalists to more than 200 transactions with Whittamore; (d) the early 2007 sentencing of Mulcaire at which the judge specifically said that journalists other than Goodman were working with Mulcaire; and (e) the March 2007 letter from Goodman to various News International executives, including Hinton, stating that other journalists at News of the World were involved in the same practices for which he was arrested and convicted and it had been widely discussed in the newsroom. As such, demand should be excused as futile.

B. DEMAND IS ALSO EXCUSED WITH RESPECT TO THE CLAIMS RELATING TO THE SHINE TRANSACTION BECAUSE THE ACQUISITION OF SHINE WAS AN INTERESTED TRANSACTION AND ENTIRE FAIRNESS APPLIES

270. Whenever a director is entrusted to make a decision about a corporate transaction in which that director has a financial interest, the entire fairness doctrine is triggered. The doctrine carries a presumption that the transaction was accomplished to favor the interests of the director over the corporation, and the director carries the burden of demonstrating that the transaction was actually entirely fair to the corporation. Given that presumption and burden-shifting, the business judgment rule is rebutted, and demand is not required.

271. First, as shown above, it is clear that the price paid for Shine was entirely too high. For example, the deal's enterprise value/EBITDA multiple is 13.10x while the

mean enterprise value/EBITDA multiple of Shine's peer companies is only 5.91x and the median multiple is only 5.56x. There are numerous other indicators that News Corp simply paid too much.

272. Second, as also shown above, the process was unfair. The process changed in mid-stream, as initial announcements stated it would be approved by the Board (with a recommendation from the Audit Committee), while later announcements place the onus of approval solely on the Committee. Further, there is not a majority of the Committee or the Board as a whole that can be deemed to be independent of Murdoch and his family. There are also issues as to whether anyone properly evaluated the Shine Transaction, as none of the materials ostensibly relied upon in approving the Shine Transaction have been made public.

273. The entire fairness doctrine applies here and there is not a majority of disinterested and independent directors on News Corp's board to appropriately consider a demand as all of News Corp's sixteen directors have disabling interests or conflicts. As such, demand should be excused.

C. DEMAND IS EXCUSED WITH RESPECT TO ALL CLAIMS BECAUSE THE BOARD MEMBERS ARE INTERESTED IN RETAINING THEIR LUCRATIVE COMPENSATION AND PRESTIGE AS BOARD MEMBERS AND BECAUSE OF THE CLOSE FAMILIAL AND/OR PERSONAL TIES TO MURDOCH

274. A majority of News Corp Board members suffer from conflicts of interest and divided loyalties that preclude them from exercising independent business judgment. Notably, at least eight out of the sixteen existing directors are Murdoch family members, current News Corp executives, or work for Murdoch and his family. And another is an extremely close family friend of the Murdochs. In addition, Eddington is interested in the

Shine Transaction because J.P. Morgan, for which Eddington serves as Non-Executive Chairman of Australia and New Zealand, served as the financial advisor to Shine in the Shine Transaction.

275. In addition, eight Directors have served on the Board for over ten years, and five of those have served for over nineteen years. While experienced directors are typically important assets, long-tenured directors can become insufficiently independent of management – an issue that can have serious consequences when a small number of them join forces to dominate board decision-making. Because they are interested, the Board members’ actions with respect to the facts alleged herein are subject to entire fairness review, and the business judgment rule is not applicable.

276. Rupert Murdoch, as the father of Elisabeth Murdoch, the majority owner of Shine, clearly stood on both side of the Shine Transaction. Given Murdoch’s overwhelming personal and financial interests in the Shine Transaction, the fact that he stands on both sides of the Shine Transaction, and his position in the Company, Murdoch is unable to fairly and impartially consider a demand.

277. James Murdoch, as the brother of Elisabeth Murdoch, is not disinterested in connection with the Shine Transaction. James Murdoch is a Murdoch scion and the brother of Lachlan Murdoch and Elisabeth Murdoch. He would also not go against the will of his father so there is no chance he would impartially consider a demand. Moreover, James would not objectively consider a demand and risk the substantial benefits he receives from News Corp and related entities. His work experience consists solely of jobs handed to him by his father. He dropped out of college in the mid-1990s

without receiving his degree. He joined News Corp in 1996, after the Company bought his money-losing record label, Rawkus Records. James Murdoch's entry into News Corp not only provides further evidence of Rupert Murdoch's predilection for nepotism but also serves as a harbinger for the present Shine Transaction. Since joining News Corp, James Murdoch has served, *inter alia*, as an Executive Vice President, Chairman, and CEO of News Corp's subsidiary, STAR Group Limited, and has been a Director of the Company and the Chairman and Chief Executive, Europe and Asia, since 2007. James Murdoch previously served as a Board member from 2000 to 2003. He receives an executive salary and his total compensation according to the Company's most recent Proxy Statement was more than \$10 million. In addition to his own interest in the Company, discussed above, he also receives annual cash bonuses and discretionary grants of time-based restricted stock units. In just the years 2008-2011, the grant date fair value of stock and option awards that he has been given totaled more than \$18 million. In a move described as a "clear breach of [the UK financial services industry] best practice," Rupert Murdoch, after resigning as Chairman of BSkyB in 2007, immediately appointed his son, James Murdoch, to replace him as Non-Executive Chairman, a position which James continues to hold. As discussed above, News Corp owns approximately 39% of BSkyB and was – until the recent phone-hacking scandal destroyed this opportunity – in the process of attempting to acquire the remainder of the company. James Murdoch has been a director of NDS since 2009 and previously was a director of NDS from 1999 until 2003.

278. Analysts consider James as the likely “heir apparent” of News Corp. James Murdoch is both financially and personally interested in the actions challenged herein and lacks independence from the other Board members, particularly Rupert Murdoch, and is therefore unable to legitimately consider a demand.

279. Lachlan Murdoch is the son of Rupert Murdoch and the brother of James Murdoch and Elisabeth Murdoch. Lachlan Murdoch has been a Board member since 1996 for which he has been paid nearly \$5 million. He also has options currently worth millions of dollars. He served as an advisor to the Company from 2005 to 2007 and was Deputy Chief Operating Officer from 2000 to 2005. At the time he quit the Company, Lachlan was making nearly \$8 million in executive compensation, and received a severance payment of \$8 million. Lachlan Murdoch worked for his father from approximately 1995 to 2005 and was given opportunities and advancements on account of his father. Lachlan Murdoch is both financially and personally interested in the actions challenged herein and lacks independence from the other Board members, particularly Rupert Murdoch, and is therefore unable to legitimately consider a demand.

280. Chase Carey has been the President, Chief Operating Officer, and Deputy Chairman of the Board since July 2009. In fiscal year 2011, Carey received an annual salary of more than \$4 million and received a signing bonus in 2009 of \$10 million. Carey’s total executive compensation in fiscal year 2010 alone was more than \$26 million. And in 2011, his total executive compensation rose to more than \$30 million. The compensation that Carey receives as a director and as an inside, corporate executive of News Corp is, upon information and belief, material to him. Carey previously served

the Company in numerous roles beginning in 1988, including as Co-Chief Operating Officer from 1996 to 2002, as a consultant from 2002 to 2003 and as a Director from 1996 to 2007. Carey has served in executive and/or director positions with affiliates of News Corp for which he has been handsomely paid, including serving as: the Chairman of the Supervisory Board of Sky Deutschland AG, an affiliate of the Company; President and Chief Executive Officer of DirecTV from 2003 to 2009 and as a director of DirecTV from 2003 to June 2010; and a Director of BSkyB from 2003 to 2008. In June 2009, when Carey resigned from DirecTV and returned to News Corp as Murdoch's second in command, that shake-up was seen as intended to preserve the family succession line at News Corp. In announcing the change in top level News Corp personnel, Murdoch described Carey as "one of my closest advisers and friends for years." Carey's long time friendship with Murdoch, his tenure with the Company, and his significant executive compensation prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

281. DeVoe has been a Director of the Company and its Chief Financial Officer since 1990, and has worked at the Company since 1983. DeVoe has served as Senior Executive Vice President of the Company since 1996. DeVoe has been a director of BSkyB since 1994 and a director of NDS since 1996. He served as a Director of DirecTV from 2003 to 2008. DeVoe's total summary executive compensation from News Corp in 2011 alone was more than \$18 million. In addition, since 2006, DeVoe has been granted News Corp stock and options awards valued at more than \$17 million. The compensation that DeVoe receives as a director and as an inside, corporate executive

of News Corp is, upon information and belief, material to him. DeVoe's son, David F. DeVoe, Jr., is a salaried employee of Fox Entertainment Group, Inc., a subsidiary of the Company, serving as its Deputy Chief Financial Officer and as an Executive Vice President. DeVoe's long tenure with the Company as an executive and as a Board member, his executive compensation, his relationship with the Murdochs, and his son's employment with a News Corp subsidiary, prevent him from asserting independent judgment, and he is, therefore, unable to objectively consider a demand.

282. Siskind has been a Director of the Company since 1991 and held senior executive positions at News Corp to 2005, including serving as the Company's Group General Counsel for nearly fifteen years and as Executive Vice President and then Senior Executive Vice President from 1991 to 2005. He is a close ally of Murdoch, serving as his Senior Advisor since 2005. He has served as a director of BSkyB since 1991 (where he currently serves alongside James Murdoch) and as a director of NDS from 1996 to 2009.

283. In 2005 alone, Siskind earned nearly \$7 million in executive compensation. As a Board member, he also is handsomely rewarded; in 2011 alone, Siskind received over \$3 million, and in 2010, his total compensation as a director was around \$3.7 million. Further, Siskind has more than \$2.1 million in unused stock units. The current compensation that Siskind receives as a News Corp director, as Murdoch's senior advisor and as a director of BSkyB, and his unused stock units, are, upon information and belief, material to him. His son, Kenneth, is a managing director of Allen & Company LLC, a United States based investment bank, which provided

investment advisory services to the Company during fiscal year 2010 related to the sale of certain of the Company's assets. The fees paid to Allen & Company were approximately \$13.6 million, which is believed to represent a material amount of the fees attributed to Kenneth Siskind, and thus material to his income from Allen & Co.

284. Siskind teaches at Georgetown together with his co-Board members Dinh and Aznar. Siskind's twenty-year tenure as a Board member, his long relationship with the Murdoch family, the materiality to him of the compensation he receives for serving as a Board member, his prior executive compensation, and his son's financially beneficial business relationship with News Corp prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

285. Eddington is conflicted because he serves as the Non-Executive Chairman of J.P. Morgan in Australia and New Zealand, and J.P. Morgan acted as the financial advisor to Shine on the Shine Transaction. Moreover, Eddington has been paid very handsomely by News Corp for serving as a Director of the Company since 1999. For 2010 and 2011 alone, Eddington received over \$400,000 in director compensation. While information about Eddington's annual compensation at J.P. Morgan is not publicly available, the millions in compensation he has or will receive as a News Corp director is, upon information and belief, material to him.

286. In addition, Eddington has served as Non-Executive Chairman, Australia and New Zealand, of J.P. Morgan since 2006. Eddington's relationship with J.P. Morgan is significant because of J.P. Morgan's business dealings with News Corp and related entities. An affiliate of J.P. Morgan was the adviser to News Corp on its proposed

acquisition of BSkyB. In February of this year, J.P. Morgan served as the sole book-runner for a \$2.5 billion debt offering by News America Inc., a News Corp subsidiary, and J.P. Morgan is presently advising News Corp on the potential purchase of Formula One motor racing. In past years, J.P. Morgan has also obtained substantial revenue from News Corp: for example, by serving as the syndication agent for a \$2.5 billion credit agreement for a News Corp subsidiary in 2007, and by providing financing for a transaction in which minority shareholders were cashed out of a News Corp subsidiary in 2008.

287. Previously, Eddington served as a Director of News Limited, News Corp's principal subsidiary in Australia, from 1998 until 2000, and as Chairman of Ansett Holdings Limited and as a director of each of Ansett Australia Limited and Ansett Australia Holdings Limited from 1997 until 2000. Ansett Australia was an asset of News Corporation until 2000 (50%). Ansett Australia is a wholly owned subsidiary of Ansett Holdings Limited which was equally owned by Air New Zealand and News Corporation Ltd. Eddington's long tenure as a Board member, his close relationship with Murdoch, and his various interrelated business relationships and the materiality to him of the compensation he and his company earn from News Corp prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

288. Andrew S.B. Knight has been a Director of the Company since 1991, and was employed as the Chairman of News International, a subsidiary of the Company, from 1990 to 1995. Murdoch reportedly named Knight as his "backstop and successor" at News Corp prior to Knight retiring from his executive position.

289. Over the course of his two decades on the Board, Knight has received well over a million dollars in fees. Knight presently also has more than \$680,000 in unused stock units. He has been the Chairman of J. Rothschild Capital Management Limited since 2008. Knight served as a Director of Rothschild Investment Trust Capital Partners plc from 1997 to 2008. According to publicly available sources, Knight has been paid nearly \$1 million in compensation from J. Rothschild Capital Management Limited. Thus, upon information and belief, the compensation Knight receives for serving as a member of the Board is, upon information and belief, material to him. Further, Knight's association with the Rothschild entities is significant because it evidences further ties between Knight and Murdoch. According to media reports, Lord (Jacob) Rothschild and Murdoch each purchased equity stakes in Genie Oil and Gas Inc. with both serving on Genie Energy's Strategic Advisory Board. Jacob Rothschild is Chairman of the J. Rothschild group of companies and of Rothschild Investment Trust Capital Partners plc on whose Board Mr. Knight served. Knight's twenty-year tenure as a Board member, the materiality to him of the annual compensation he earns for serving as a Board member, his ongoing relationship with Murdoch, and his former employment with the Company prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

290. Thomas J. Perkins has been a Director of the Company since 1996. Perkins is a personal friend of Murdoch. In fact, Murdoch provided an endorsement for Perkins' pulp novel *Sex and the Single Zillionaire*. Perkins' long tenure as a Board

member and his personal relationship with Murdoch prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

291. Peter Barnes has been a Director of the Company since 2004 and is a member of the Audit Committee. Barnes has received well over \$1 million in fees and stock option awards as compensation for serving in those roles. He is also Chairman of Ansell Ltd., Metcash Ltd. and Samuel Smith & Sons Pty Ltd. Although the annual compensation he receives for serving as chairman of those companies is not publicly available, upon information and belief, the annual compensation that Barnes receives for serving as a Director of News Corp is material to him.

292. Further, as demonstrated by the numerous transactions that the Board simply let Murdoch push through without any oversight whatever (most notably the Dow Jones acquisition and the DirecTV sale), Barnes' tenure on the Audit Committee has demonstrated his inability or unwillingness to provide any meaningful oversight over the Shine Transaction. That, coupled with the materiality to him of the compensation he receives for serving as a Board member, render him incapable of validly exercising business judgment in considering a demand.

293. Natalie Bancroft has been a Director of the Company since 2007. In 2010 and 2011 alone, she received a total of more than \$400,000 for serving in that role. She is a professional ballet dancer and trained as an opera singer. Bancroft was appointed as a Director as part of the agreement Murdoch orchestrated to buy Dow Jones. According to news sources, Bancroft was handpicked by Murdoch as a possible end run around the wishes of the Bancroft family. Reportedly, Murdoch did not interview the Bancroft

family's nominees for the position; "he simply handed the job to Natalie." Although Bancroft's annual compensation (if any) in the performing arts is not publicly available, upon information and belief, the annual compensation that she receives for serving as a Board member is material to her. Further, given that she owes her position and its associated compensation to Murdoch, and with no business experience of her own, Bancroft is unlikely to challenge Murdoch's dominance of the News Corp Board and she is therefore unable to objectively consider a demand.

294. Kenneth E. Cowley has been a Director of the Company since 1979 – as long as Murdoch has been CEO – and serves as a member of the Nominating and Corporate Governance Committee. Cowley served as a senior executive of News Limited, a subsidiary of the Company, from 1964 to 1997, including as its Chairman and Chief Executive Officer from 1980 to 1997. Cowley has received millions of dollars for serving as a director. He is also Chairman of R.M. Williams Holdings Limited. Although the compensation that Cowley receives for serving in that role is not publicly available, upon information and belief, the compensation he receives for serving as a director of News Corp is material to him. Cowley's over thirty-year tenure as a Board member is inconsistent with being an independent director. Further, the compensation he has received over the three decades for sitting on the Board was material to him. Importantly, Cowley is the head of the Murdoch Family Trust, a position to which he was appointed by Murdoch. In this capacity, he is a fiduciary to Murdoch and his family. These factors, in addition to his ongoing relationship with Murdoch and his former

employment with the Company, prevent him from asserting independent judgment, and he is, therefore, unable to objectively consider a demand.

295. Joel Klein joined the Board of Directors of the Company and serves as Executive Vice President, Office of the Chairman, effective January 2011 and as Chief Executive Officer of News Corp's education division. His compensation as a Board member exceeds \$250,000 each year. In addition, for serving as a News Corp executive, Klein is paid a \$2 million base salary and received a \$1 million signing bonus. He gets a "car allowance" of \$1,200 per month, and is eligible to receive millions of dollars in bonus and other incentive compensation pursuant to the Company's plans, as well as profit-sharing, pension, health, welfare and death benefits and substantial payments upon termination of employment. In addition, his writings appear in the Wall Street Journal providing him personal and professional opportunities beyond his role at the Company. His News Corp compensation, which provides the bulk of his income, is material to him. His current and very recent employment with News Corp, and the emollients his position provides, prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

296. Murdoch appointed José María Aznar as a Board member in 2006. Aznar is a longtime friend of Murdoch, and in fact, Murdoch attended the wedding of Aznar's daughter in 2002. Aznar teaches at Georgetown University with his fellow Board members Dinh and Siskind. In addition, until Aznar joined the Board, a consulting firm in which he was half owner had a contract to provide advisory services to News Corp, for which News Corp paid the Company £120,000 in fiscal year 2006. Since joining News

Corp's Board in 2006, Aznar has received hundreds of thousands of dollars in compensation and stock awards. In 2009, Aznar received total compensation for serving as a Board member of \$220,000, and in 2010 he received total compensation of \$146,161. In 2011, he received total compensation of \$230,000 for serving on the Board. He also has more than \$585,000 in unused stock units. Aznar is a consultant to Endesa SA for which news reports state he receives €200,000 or approximately \$289,000. He also serves as a Distinguished Scholar at Georgetown University, is a member of the Global Advisory Board of J.E. Robert Companies, is a member of the International Advisory Board of the Atlantic Council of the United States, is a Strategic Limited Partner and member of the Board of Advisers to Doheny Global Group, and is the President of the Foundation for Social Studies and Analysis (FAES). Although Aznar's compensation from these third parties is not publicly available, upon information and belief, the annual compensation he receives for serving as a Board member of News Corp is material to him.

297. Viet Dinh is another longtime friend of the Murdoch family. After meeting Dinh at a conference in June 2003, Lachlan Murdoch introduced Dinh to Murdoch, and the following year, Dinh was appointed to News Corp's Board. Over the years, Dinh has remained close to the Murdoch family: Dinh traveled to Australia to attend Lachlan's wedding, and he is the godfather of Lachlan's second child. Moreover, upon information and belief, the compensation that Dinh receives as a director of the Company is material to him. In 2009, Dinh received \$135,000 in total compensation for serving as a Director, and in 2010 he received \$258,000 in total compensation as a

Director. In 2011, he received \$268,000 for serving as a Director. His unused stock units exceed \$680,000. Dinh also serves as a director of MacAndrews & Forbes Worldwide Corporation for which he received annual compensation of \$135,000 in 2009 and \$137,000 in 2010. Dinh is also General Counsel and Corporate Secretary for Strayer Education Inc. and a Principal of Bancroft PLLC, a law firm in Washington D.C. Although Dinh's annual compensation for his roles at Strayer Education Inc. and Bancroft PLLC are not publicly available, upon information and belief, the annual compensation that Dinh receives for serving as a member of the Board is material to him.

298. Before joining the Board in 2004, John Thornton was president and co-chief operating officer of Goldman Sachs. Thornton had a close professional relationship with News Corp while at Goldman, advising News Corp on a number of deals – including News Corp's \$1 billion purchase of Star TV, an Asian satellite television provider – generating millions of dollars in fees for himself and Goldman Sachs. Moreover, upon information and belief, his annual compensation for serving on the Company's Board is material to him. In 2009 Thornton received \$119,110 in total compensation for serving as a Board member, and in 2010 he received over \$242,000 in total compensation for serving as a Board member. In 2011 he received \$252,000 in compensation for serving as a Board member. In each of those years, Thornton received approximately \$2 million as compensation for serving as a director of other companies (HSBC Holdings PLC, Ford Motor Company and China Unicom (Hong Kong) Limited). He also has in excess of \$680,000 in unused stock units.

DERIVATIVE CAUSES OF ACTION

COUNT I

(Breach of Fiduciary Duty)

(Derivatively Against All Defendants Concerning the Shine Transaction)

299. Plaintiffs reallege the preceding paragraphs as set forth above and incorporate them herein by reference.

300. The Individual Defendants, as Directors of News Corp, are fiduciaries of the Company and its shareholders. As such, they owe the Company the highest duties of loyalty, care, candor and good faith and fair dealing.

301. The Individual Defendants breached their fiduciary duties by agreeing to acquire Shine without consideration whether the Transaction serves a legitimate corporate objective, and if so, whether purchasing Shine is a better alternative than any other means to achieve whatever legitimate corporate objective serves as a reason for the Transaction in the first place. The Individual Defendants also breached their duties by failing to fairly evaluate the Shine Transaction and permitting the purchase of Shine at an excessive and inequitable price.

302. In contemplating, planning, and/or effecting the foregoing conduct, the Individual Defendants were not acting in good faith toward the Company and breached their fiduciary duties.

303. As a result of these actions of the Individual Defendants, the Company has been and will be damaged.

304. Plaintiffs have no adequate remedy at law.

COUNT II
(Breach of Fiduciary Duty)
(Derivatively Against Defendant Rupert Murdoch Concerning the Shine Transaction)

305. Plaintiffs reallege the preceding paragraphs as set forth above and incorporate them herein by reference.

306. Defendant Murdoch, as a controlling shareholder, is a fiduciary of the Company and its shareholders. As such Murdoch owes them the highest duties of loyalty, care, candor and good faith and fair dealing.

307. Defendant Murdoch breached his fiduciary duties by using his control over News Corp and the Individual Defendants to cause the Company to allow the Shine Transaction and permit the purchase of Shine at an excessive price, despite knowing that such acquisition would ultimately be detrimental to the Company.

308. In contemplating, planning, and/or effecting the foregoing conduct and in pursuing and structuring the Shine Transaction, Murdoch did not act in good faith and breached his fiduciary duties to the Company.

309. As a result of the actions of Murdoch, the Company has been and will be damaged.

310. Plaintiffs have no adequate remedy at law.

COUNT III
(Breach of Fiduciary Duty)
(Derivatively Against All Defendants As Directors For Knowingly and in Bad Faith Permitting News Corp's Operations To Be Run In an Unlawful and Improper Manner)

311. Plaintiffs reallege the preceding paragraphs as set forth above and incorporate them herein by reference.

312. The Individual Defendants, as Directors of News Corp, are fiduciaries of the Company and its shareholders. As such, they owe the Company the highest duties of loyalty, care, candor, and good faith and fair dealing, including the duty to implement in good faith a reasonable system of controls to ensure that News Corp is operated in conformity with applicable laws. Once that system is in place, the Directors have a duty to respond in good faith to reports or indications that News Corp or its employees are engaging in unlawful or other improper behavior. The Individual Defendants have acted in violation of News Corp's internal policies, including its Standards of Business Conduct, its Code of Ethics for the Chief Executive Officer and Senior Financial Officers, and its Statement of Corporate Governance, in permitting News Corp senior officers and middle managers to violate various state, federal, and foreign laws.

313. Notably, the Statement of Corporate Governance states that the Board is responsible for corporate governance of the Company and oversees management with a focus on enhancing the interests of the shareholders. Furthermore, the Standards of Business Conduct states: "[W]e are always careful to be sure that we don't do anything that would otherwise bring the Company into disrepute." Through its actions and inactions, the Board has systematically ignored the principles set forth in those documents.

314. More than a decade ago, News Corp was engaging in improper and illegal conduct. Evidence of this scandalous behavior became publicly known in 2002 when the Guardian published an article detailing many of the illegal information-gathering techniques used by Rees, with whom News of the World journalists frequently worked.

Moreover, beginning around this time, several lawsuits were brought against both NDS and NAM, evidencing widespread misconduct at News Corp (but because many of the Company's directors were directors of NDS and NAM as well, they and their fellow News Corp Board members should have known about the misconduct at these subsidiaries long before complaints were filed). Moreover, as detailed in section B.2.D above, red flags of misconduct continued to appear over the next several years. But after every red flag, the directors consciously disregarded the illegal activities occurring at News Corp.

315. The Individual Defendants chose to disregard each of those red flags because, as demonstrated time and again by its actions and inactions, the Board blindly defers to Murdoch and routinely places his interests above the best interests of the Company and its public shareholders. There can be no doubt that if Murdoch wanted the rampant illegality at News Corp subsidiaries stopped, the Board would have investigated and found the misconduct. It then could have put a stop to it and foreclosed much of the harm that ultimately befell the Company.

316. The Individual Defendants breached their fiduciary duties by failing to take any meaningful action to investigate, and/or stop the improper and illegal conduct at News Corp involving wiretapping and phone-hacking.

317. Based on the foregoing conduct, the Individual Defendants were not acting in good faith toward the Company and breached their fiduciary duties.

318. As a result of these actions of the Individual Defendants, the Company has been and will be damaged.

319. Plaintiffs have no adequate remedy at law.

COUNT IV
(Breach of Fiduciary Duty)
(Derivatively Against Murdoch, James Murdoch, Carey, DeVoe and Siskind As
Officers For Bad Faith Failure To Ensure News Corp's Operations Are Run In a
Lawful Manner)

320. Plaintiffs reallege the preceding paragraphs as set forth above and incorporate them herein by reference.

321. Murdoch, James Murdoch, Carey, DeVoe and Siskind, as officers of News Corp, (the "Officer Defendants") are fiduciaries of the Company and its shareholders. As such, they owe the Company the highest duties of loyalty, care, candor, and good faith and fair dealing, including the duty to implement in good faith a reasonable system of controls to ensure that News Corp is operated in conformity with applicable laws. Once that system is in place, they have a duty to respond in good faith to reports or indications that News Corp or its employees are engaging in unlawful or other improper behavior. This cause of action is asserted based upon the Officer Defendants' acts in violation of News Corp's internal policies, including its Standards of Business Conduct, its Code of Ethics for the Chief Executive Officer and Senior Financial Officers, and its Statement of Corporate Governance, in permitting News Corp senior officers and middle managers to violate various state, federal, and foreign laws.

322. More than a decade ago, News Corp was engaging in improper and illegal conduct. Evidence of this scandalous behavior became publicly known in 2002 when the Guardian published an article detailing many of the illegal information-gathering techniques used by Rees, with whom News of the World journalists frequently worked.

Moreover, beginning around this time, several lawsuits were brought against both NDS and NAM, evidencing widespread misconduct at News Corp (but because many of the Company's directors, including several of the Officer Defendants, were directors of NDS and/or NAM as well, they and their fellow News Corp Board members should have known about the misconduct at these subsidiaries long before complaints were filed). Moreover, as detailed in section B.2.D above, red flags of misconduct continued to appear over the next several years. But after every red flag, the Officer Defendants consciously disregarded the illegal activities occurring at News Corp.

323. The Officer Defendants, like the other Individual Defendants, chose to disregard each of those red flags because, as demonstrated time and again by their actions and inactions, they blindly defer to Murdoch and routinely place his interests above the best interests of the Company and its public shareholders. The Officer Defendants are indeed more beholden to Murdoch because they are dependent on him to continue their lucrative executive employment contracts with the Company. There can be no doubt that if Murdoch wanted the rampant illegality at News Corp subsidiaries stopped, the Officer Defendants could have implemented a proper investigation. The Officer Defendants then could have put a stop to the misconduct and foreclosed much of the harm that ultimately befell the Company.

324. The Officer Defendants breached their fiduciary duties by failing to take any meaningful action to investigate, and/or stop the improper and illegal conduct at News Corp involving wiretapping and phone-hacking.

325. Based on the foregoing conduct, the Officer Defendants were not acting in good faith toward the Company and breached their fiduciary duties.

326. As a result of these actions of the Officer Defendants, the Company has been and will be damaged.

327. Plaintiffs have no adequate remedy at law.

CLASS ACTION ALLEGATIONS

328. Plaintiffs bring this action pursuant to Rule 23 of the Rules of the Court of Chancery, individually and on behalf of all other holders of News Corp's common stock (except defendants herein and any persons, firm, trust, corporation or other entity related to or affiliated with them and their successors in interest) who are or will be threatened with injury arising from Defendants' wrongful actions, as more fully described herein (the "Class").

329. This action is properly maintainable as a class action.

330. The Class is so numerous that joinder of all members is impracticable. The Company has thousands of shareholders who are scattered throughout the United States and the world. As of January 26, 2011, there were 1,826,457,096 shares of News Corp Class A Common Stock outstanding.

331. There are questions of law and fact common to the Class including, *inter alia*, whether:

- a. The Individual Defendants breached their fiduciary duties by failing to fully disclose all material information relating to the Shine Transaction, the expansion of the Board, and the planned appointment of Elisabeth Murdoch to the Board;

- b. The Individual Defendants breached their fiduciary duties by favoring the interests of Murdoch over those of shareholders and the Company;
- c. Plaintiffs and the other members of the Class are being and will continue to be injured by the wrongful conduct alleged herein and, if so, what is the proper remedy and/or measure of damages; and
- d. Plaintiffs and the other members of the Class will be damaged irreparably by Defendants' conduct.

332. Plaintiffs are committed to prosecuting the action and have retained competent counsel experienced in litigation of this nature. Plaintiffs' claims are typical of the claims of the other members of the Class, and Plaintiffs have the same interests as the other members of the Class. Plaintiffs are adequate representatives of the Class.

333. The prosecution of separate actions by individual members of the Class would create the risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for Defendants, or adjudications with respect to individual members of the Class, which would as a practical matter be disjunctive of the interests of the other members not parties to the adjudications or substantially impair or impede their ability to protect their interests.

334. Defendants have acted, or refused to act, on grounds generally applicable to, and causing injury to, the Class and, therefore, preliminary and final injunctive relief on behalf of the Class, as a whole, is appropriate.

CLASS ACTION CAUSE OF ACTION

COUNT V

(Injunctive Relief To Prevent The Buyback From Resulting in a Change of Control Shine Transaction)

335. Plaintiff repeats the allegations contained in the foregoing paragraphs as if set forth in full herein.

336. The Buyback threatens to increase Murdoch's voting control to over 50%, giving him absolute voting control of the Company at the expense of the public shareholders.

337. The Board has improperly authorized the Buyback without any protection from a no-premium takeover by Murdoch in breach of its fiduciary duties.

338. The Board and the Company are prohibited from any action that would give Murdoch 50% or more of the Company's outstanding voting stock without subjecting any such transaction to the required scrutiny of the entire fairness standard.

339. The terms of the Buyback, by which Murdoch could gain control of the Company at no expense to himself, and non-Murdoch shareholders could lose control of the Company while receiving no premium, do not meet the requirements of entire fairness and otherwise constitute a violation by the Board of their fiduciary duties, including their "*Revlon* duties."

340. Plaintiffs and the members of the Class have no adequate remedy at law. Only through the exercise of this Court's equitable powers can Plaintiffs and the Class be fully protected from the immediate and irreparable injury which Defendants' actions threaten to inflict.

341. As a result of the Defendants' breaches of fiduciary duties, Plaintiffs and the other members of the Class have and will be irreparably damaged in the event they lose control of the Company through the Buyback, and any such outcome should be enjoined.

WHEREFORE, Plaintiffs pray for judgment as follows:

- a. for an order declaring that the Defendants breached their fiduciary duties to the Company;
- b. for an order awarding damages, together with pre- and post-judgment interest to the Company;
- c. finding that Individual Defendants will breach their fiduciary duties to the Class by permitting the rampant and continued illegal conduct described herein;
- d. enjoining the Buyback from resulting in a change of control transaction without being subject to the doctrine of entire fairness;
- e. for Plaintiffs' costs and expenses incurred in this action, including, but not limited to, experts' and attorneys' fees; and
- f. for such other and further relief as may be just and proper.

DATED: September 13, 2011

GRANT & EISENHOFER P.A.

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